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de l'Agence Française de Développement

Opportunities and challenges for the implementation of green budgeting

Chloé Boutron – PhD student, University of British Columbia &
Affiliated Research Fellow, I4CE

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Agenda

- **Introduction**
- **Green budgeting: definition & objectives**
- **Green budgeting in the EU**
 - Overview
 - Available resources
 - EU green budgeting training
 - Opportunities and challenges
- **Conclusion**
 - Financing plans for the transition

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Introduction

Budgets and the transition to a low-carbon and resilient economy

- **National budgets can play a crucial role in the transition:**
 - Main driver of public action
 - Create incentives for private investments (businesses and households)
 - Support stable macroeconomy
- **National budgets need to be ‘greened’ by governments:**
 - Ensure enough funds are directed towards green activities
 - Ensure enough funds are directed away from environmentally harmful activities
 - Create economic conditions for change (green taxes, incentives..)
 - Prepare to absorb economic shocks from climate change and the transition (recovery funds..)
- **‘Green budgeting’ can help**

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Green budgeting: definition & objectives

Definition

- **Green budgeting:**
 - Use budgetary tools and processes to progress on climate and environmental objectives
 - Ultimately: align public budgets with green goals
 - Based on a set of tools
- **The green budgeting toolbox:**
 - Green taxes
 - Green bonds
 - Carbon assessments
 - Ex-ante green budget tagging
 - Ex-post green budget tagging
 - Environmental Impact Assessment
 - ...
- **Green budget tagging as a comprehensive starting point for green budgeting**

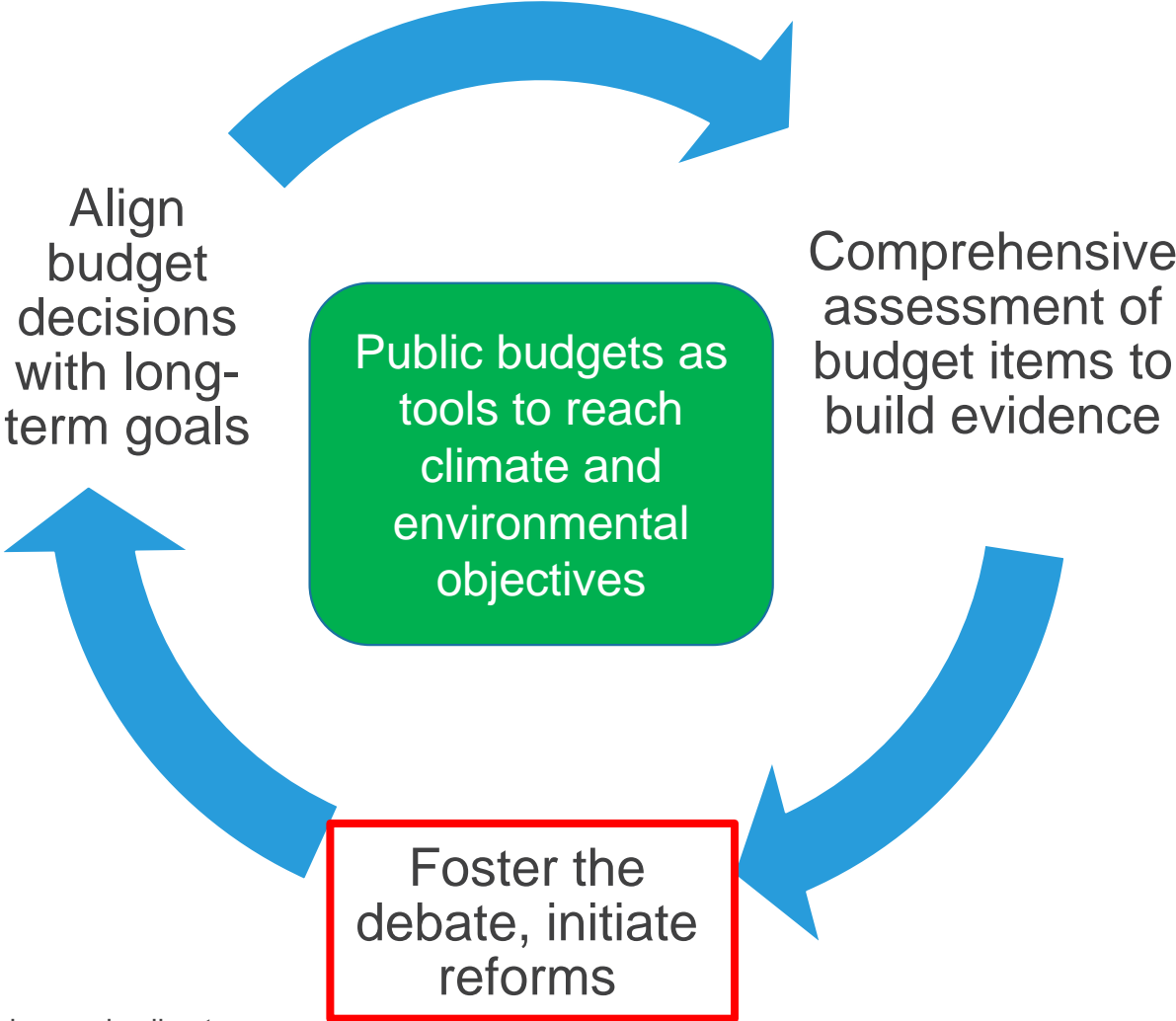
Definition

- **Green budget tagging:**
 - Scan of all budgetary items (expenditure, revenue, tax expenditure)
 - Systematically identify whether they contribute to or impede the achievement of climate and environmental objectives (green, brown, neutral)
 - Can focus on climate only, or all environmental dimensions
- **Advantages:**
 - All-of-government approach if scope is large enough
 - Scope can be adapted, start small then expand over the years
 - Serves multiple objectives at once (though mostly depends on how it is implemented)

Objectives

- **Several objectives are generally attached to green budget tagging**
 - To **assess and improve the consistency of public spending** with a country's environmental and climate targets
 - To **increase the transparency** of government action and raise awareness (Parliament, civil society, citizens)
 - To **improve the effectiveness of spending**, facilitate trade-offs and the prioritization of expenses
 - To **facilitate access to international financing** by (a) identifying the funding gap on a regular basis, and (b) demonstrating government commitment and co-finance
- **Green budget tagging, when comprehensive, highlights areas of the budget which need reform, removal, or strengthening to align climate and environmental objectives**

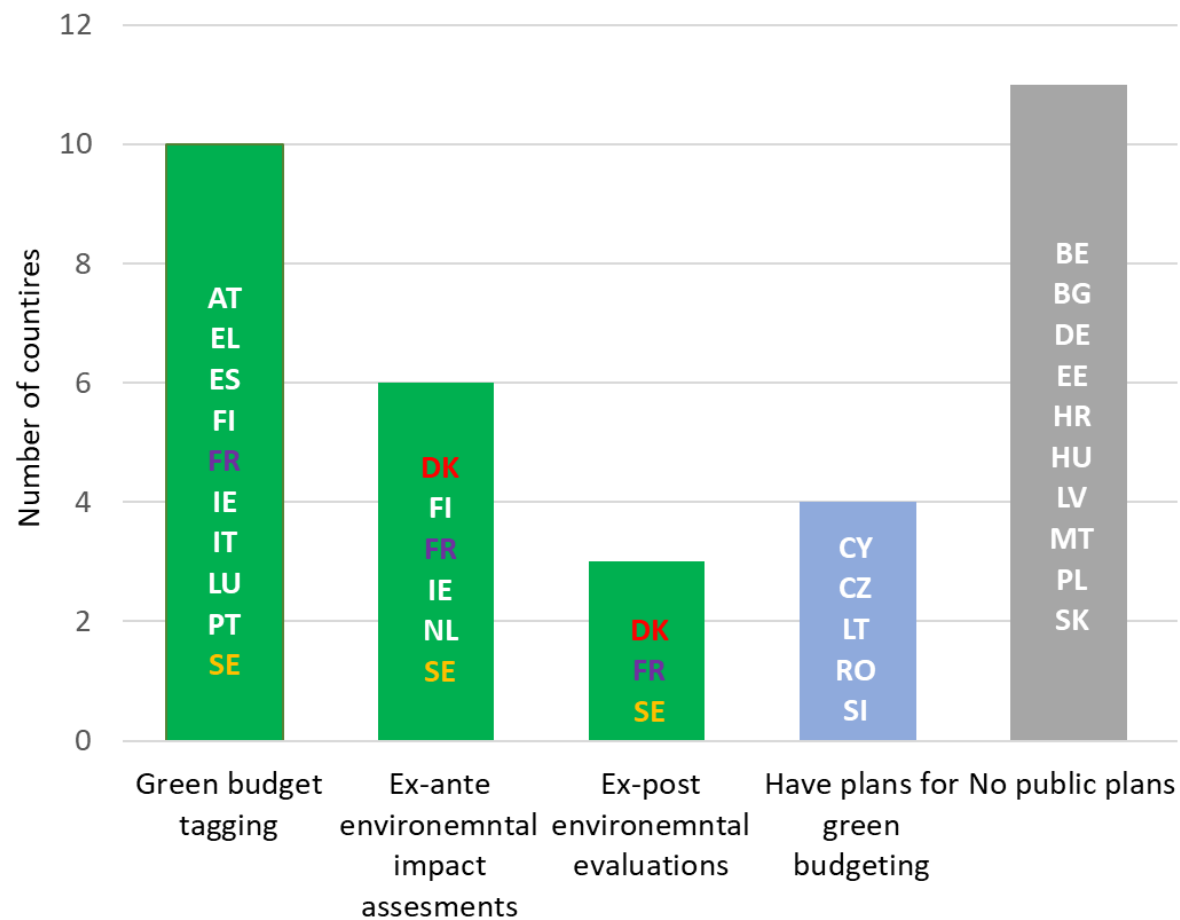
From green budget tagging to green budgeting





Green budgeting in the EU

Green budgeting in the EU

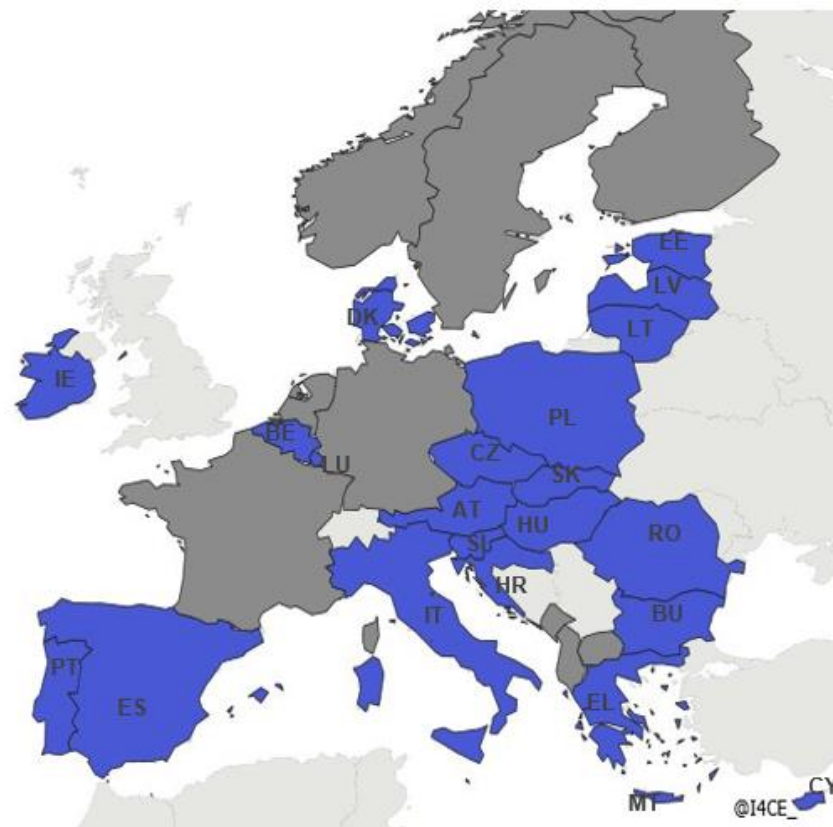


Source: [European Commission 2023](#)

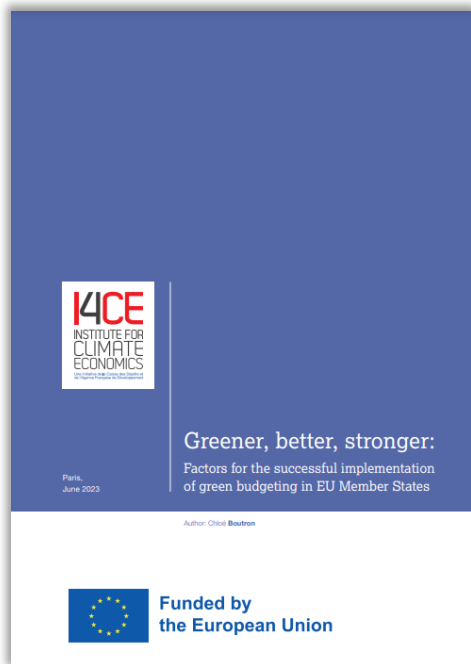
Green budgeting training for EU Member States

- **Capacity building** from the TSI (DG REFORM) offered to requesting countries, carried out by I4CE and Expertise France
 - 18 countries, 23 with EF
 - 4 modules
 - Module 1: **introduction**
 - Module 2: country specific case study: developing a **methodology on a section of the national budget**
 - Module 3: country specific case study: **institutional assessment** for the implementation of green budgeting
 - Module 4: **exchange of civil servants** on best practices

- Participating countries:



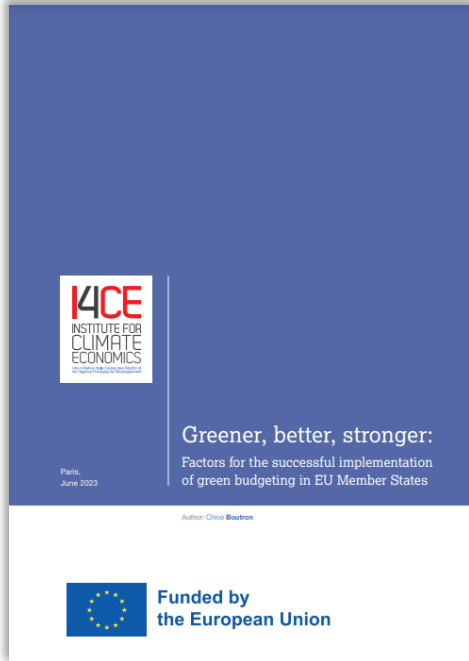
Key insights



[Greener, better, stronger: factors for the successful implementation of green budgeting in EU Member States](#), 2023

- **Opportunities:**
 - Countries' **willingness to exchange best practices:**
 - Civil servant exchange
 - Green budgeting conference
 - Additional bilateral exchanges with non-EU countries/regions
 - **Resources available** for methodology development
 - EU resources
 - International resources
 - Examples of SDG budgeting, gender budgeting,...
 - Existing **national resources** for methodology/governance:
 - Statistical reporting
 - RRP
 - Green bonds

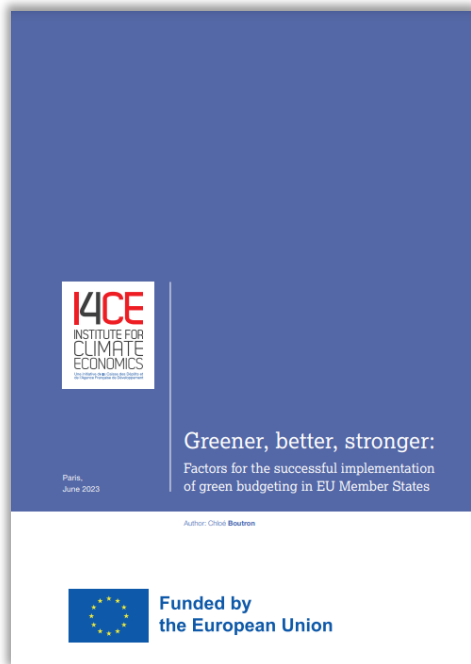
Key insights



- **Opportunities:**
 - **To be effective, green budgeting should be based on national goals:**
 - **Green** = aligned with national goals
 - **Light green** = improvement from baseline but not enough to meet goals
 - **Brown/red** = does not meet goal or runs counter to goal
 - **EU countries typically have detailed climate and environmental plans:**
 - National Energy and Climate Plans
 - Support to develop LTS
 - EU countries have rather **consolidated budgeting/PFM processes** → can support the introduction of new tools
 - **Lively ecosystem of CSOs**

[Greener, better, stronger: factors for the successful implementation of green budgeting in EU Member States](#), 2023

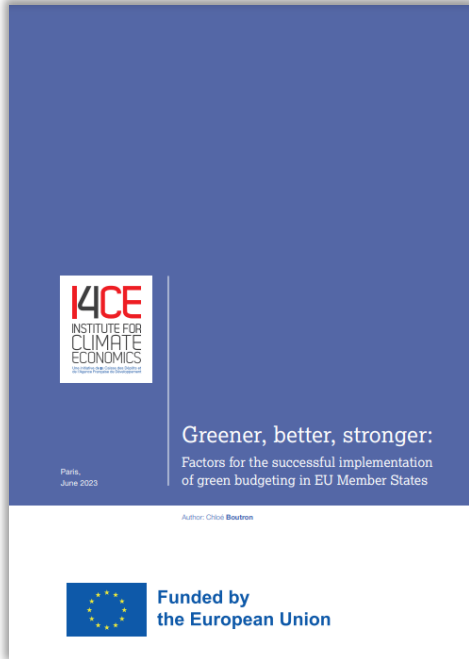
Key insights



[Greener, better, stronger: factors for the successful implementation of green budgeting in EU Member States](#), 2023

- **Remaining challenges:**
 - Technical challenges:
 - **Format, level of details of budgetary data:** budget lines do not always have enough information to estimate environmental impact
 - *Can be improved over time*
 - *Seek information from line ministries: fosters collaboration on green goals.*
 - **Time and resource constraints:** appears more feasible to use a ready-made methodology, but this would make the exercise less effective
 - *Bulk of the work is to develop the methodology (1st year, then marginal improvements every year)*
 - *Start with a pilot, expand over time*

Key insights



[Greener, better, stronger: factors for the successful implementation of green budgeting in EU Member States](#), 2023

- **Remaining challenges:**
 - Institutional challenges:
 - **Limited political will**
 - *Technical teams can make the case for green budgeting with capacity building, pilots..*
 - *Increased attention thanks to EU, CSOs that can be built on*
 - **Need stewardship of finance ministries:** environment ministries typically involved on green issues
 - *Interministerial task force*
 - *Well-defined roles and responsibilities*
 - **Insert green budgeting in the regular budget cycle** to inform planning, preparation, approval, reporting
 - *Develop framework documents*

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Conclusion

Green budgeting is feasible

- Green budgeting can appear overwhelming but
 - The first step is to **define objectives, roles and responsibilities**
 - The **bulk of the work is methodological development** (1st year)
 - **Start small, expand over time**
 - There are **many resources available** that can help
 - **Political will** is difficult to garner but
 - **Capacity building**
 - **Pilots**
 - **Momentum** from the EU and CSOs
- All can contribute to **increase attention and make a strong case** for green budgeting

Green budget tagging should be complemented by a financing plan for the transition

- Green budgeting **CAN**:
 - **Provide a clear picture** of the share of a national budget allocation that is aligned, or runs counter, with national climate and environmental goals
 - **Inform reforms** of budget measures, especially items tagged as “brown/red”, or “green with a risk of technological lock-in”.
- But it **CANNOT**:
 - Provide information on **how much public funding should go to green goals**
- **Green budgeting should be complemented by a financing plan for the transition** → Match the current picture of the budget with a projection of what it should look like to meet green objectives

What should financing plans look like?

Financing plans for the transition should be **based on national long term climate strategies** (LTS ideally), and should at least include:

- Assessment of **climate investments to be unlocked**
- Overview of the **public policies to be put in place** to trigger these investments (e.g., regulation, subsidies, taxes, information provision, etc.) and of their expected impacts on public finances
- Estimate of the **funding gap**
- Overview of the **potential sources of revenue** which could be mobilized by the government to support the transition (e.g., tax revenues, sustainable finance instruments, debt, etc.);
- Assessment of the **expected macroeconomic impacts** of the transition.

They should be **sequenced over time** and identify actors that will contribute to the **governance and piloting of the plan**, ideally **to be matched with actors in charge of green budgeting**.



Thank you for your
attention