

## European Union Green Budgeting Reference Framework

**As green budgeting is slowly expanding worldwide, some early lessons can be drawn.** Within the EU, for example, those countries implementing some form of green budgeting have deployed a broad variety of practices, offering valuable examples to other Member States willing to embark in the process. Considering various existing green budgeting approaches, this note distils those elements that would be key for implementing green budgeting and proposes a *green budgeting reference framework for the EU Member States*.

**The Green Budgeting Reference Framework (GBRF) can serve a double purpose.** On the one hand, it seeks to provide a **basic toolkit** for Member States willing to either embark upon implementing green budgeting or upgrade their current practices, thereby serving as guidance for national green budgeting frameworks (GBFs). For example, for a country starting from scratch, the framework would help answer some obvious operational questions, such as: *Where to start from? What steps to take first?* Also, for countries who already have a national GBF in place, the GBRF provides orientations to develop them further. While the objective is not to have a ‘one-size-fits-all’ model for green budgeting in the EU, some convergence of approaches across Member States would be desirable and the GBRF could provide the necessary point of reference. On the other hand, the GBRF could serve as **reference for the Commission to monitor** Member States’ practices (as per the Green Deal Communication: *“(…) The Commission will work with the Member States to screen and benchmark green budgeting practices (…)”*). It would allow the Commission to assess existing and future practices, with different degrees of sophistication, against a well-established reference framework.

**This framework complements well the more overarching one being developed by the OECD.** The OECD has put forward a framework on how to implement green budgeting, which consists of four building blocks: (i) strategic and fiscal planning; (ii) budgeting tools for evidence generation and policy coherence; (iii) accountability and transparency; (iv) an enabling budgeting environment.<sup>1</sup> Reflecting a more comprehensive definition of green budgeting,<sup>2</sup> the OECD framework covers broader areas of green budgeting and policy-making. It can provide a useful structure for budgeting and policymaking more generally, within which the more operational GBRF presented herein can be applied. It should also be noted that the Commission (DG ECFIN) provided comments to the draft OECD framework and contacts with the OECD experts take place on a regular basis.

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<sup>1</sup> <https://www.slideshare.net/OECD-GOV/session-1-scherie-nicol-and-juliane-jansen-oecd>

<sup>2</sup> The OECD (2018) defines green budgeting as “*using the tools of budgetary policy-making to help achieve environmental goals. This includes evaluating environmental impact of budgetary or 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*”.

## **Key elements of the GBRF**

**The GBRF includes elements that are considered key for implementing green budgeting at country level.** These elements are as follows: (i) the *coverage* of environmental objectives, of budgetary items and of public sector entities; (ii) the *methodology* used to assess consistency of budgetary policies with environmental goals; (iii) the *deliverables*; (iv) the *governance*, setting responsibilities for each player; (v) and the *transparency and accountability* of the process.

**Developing a national GBF from the ground up is an ambitious task and different levels of ambition across Member States can be expected.** Green budgeting requires introducing new methodologies and procedures as well as novel expertise within the national budgetary process. Devising and implementing a GBF is bound to take time and resources. The quality of the technical work, a collaborative approach and, not least, political support are key success factors. Absent most elements of green budgeting in many Member States, attaining a fully developed framework is administratively challenging and may not be feasible to achieve in the short run by a majority of countries. Accordingly, the GBRF outlines three levels of development, featuring varying degrees of ambition and comprehensiveness across the five above-mentioned key elements. Specifically, *level 1* corresponds to an ‘essential’ green budgeting framework, which includes must-have features for any country committed to using green budgeting; *level 2* corresponds to a ‘developed’ framework; and *level 3* presents an ‘advanced’ framework. Table 1 below provides a comparative overview of the three levels.

**Table 1: Elements of the European Union Green Budgeting Reference Framework**

<b>ELEMENTS</b>	<b>LEVEL 1- Essential</b>	<b>LEVEL 2 - Developed</b>	<b>LEVEL 3 - Advanced</b>
<b>Coverage</b> <i>Environmental objectives</i>	Climate-related	Climate-related Some other objectives	All objectives
<i>Budgetary items</i>	Favourable expenditure Favourable revenue	Favourable items Unfavourable items	Favourable items Unfavourable items Tax expenditure
<i>General government</i>	State (incl. social security)	State (incl. social security) Subnational governments	State (incl. social security) Subnational governments Other (e.g. SOEs + extra-budgetary)
<b>Methodology</b>	Tagging methodology	Tagging methodology	Tagging methodology <i>Ex-ante</i> impact assessment of policies methodology <i>Ex-post</i> evaluation of policies methodology
<b>Deliverables</b>	Identification in annual budget Reporting on budget execution	Identification in annual budget Reporting on budget execution Estimates in multi-annual plans	Identification in annual budget Reporting on budget execution Estimates in multi-annual plans Extra-budgetary spending reports
<b>Governance</b>	Ad-hoc central task force	Permanent central structure (not necessarily separated)	Permanent central structure (not necessarily separated) Green budgeting correspondents in various ministries/agencies
<b>Transparency &amp; Accountability</b>	All deliverables public Independent expert assessment of methodology	All deliverables public Independent expert assessment of methodology Independent assessment of deliverables Parliamentary discussion	All deliverables public Independent expert assessment of methodology Independent assessment of deliverables Parliamentary discussion Ex-post review

## Coverage

**A comprehensive national GBF should ideally cover all the key environmental objectives, all budgetary items and a very large subset of public sector entities.**

- Environmental sustainability encompasses several objectives, going from land and water preservation, to waste management or climate mitigation and adaptation. As fiscal policies could affect these goals in different ways, including being favourable for an objective and unfavourable for another one, having a comprehensive picture of how each budgetary item affects any of these goals is key. As a first step, and given the fundamental objective of achieving climate neutrality by 2050<sup>3</sup>, green budgeting should cover at least climate change mitigation and adaptation in an essential framework (level 1), while other objectives can be progressively added in a developed framework (level 2) up to full coverage in an advanced framework (level 3).
- A full coverage of *budgetary items* implies including both (environmentally) favourable and unfavourable expenditure and revenue items, as well as tax expenditures. To differentiate based on coverage, an essential framework will present favourable budgetary items, on both the revenue and expenditure side. This would entail capturing all items whose impacts are positive on the environment, and not only those whose main purpose is environmental protection. Developed frameworks will include all favourable items and unfavourable expenditure and revenue items. Advanced frameworks will include all of the above and, additionally, tax expenditure items.
- The scope of green budgeting should encompass the *public sector* (given challenges in covering the entire public sector). An essential framework will therefore cover at the minimum the state or central budgetary government and social security. A developed framework will add subnational governments and an advanced framework will cover also SOEs and extra-budgetary funds.

## Methodology

**A national GBF should include a methodology for assessing the consistency of budgetary policies with long-term environmental goals.**

- At essential and developed levels, a methodology for identifying favourable, and unfavourable respectively, items should be presented – *green budgetary tagging*.
- At an advanced level, the framework should also display a methodology on the way to conduct *ex-ante* impact assessments and *ex-post* evaluations of budget policies.

**Member States should assess the greenness of budgets at the most granular level possible**, by considering specific sub-headings of programmes and/or actions for the expenditure side and specific revenue items on the revenue side.

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<sup>3</sup> <https://www.consilium.europa.eu/media/41768/12-euco-final-conclusions-en.pdf>

## Deliverables

**A national legal provision or administrative document (e.g. code of conduct) on green budgeting should detail the content and calendar for green budgeting deliverables.** As main deliverable, green budgeting would require identifying the green content in both the annual budgetary plans and executed budgets. When budgetary plans and executed budget reports follow different accounting practices, it would be important that the same classification be used to reflect what is green (or brown). The presentation of the green content could be done in various ways, e.g. through sections, annexes or tables in the dedicated documents (annual budget planning and budgetary execution reports). While such deliverable would be a requisite already for an essential framework (level 1), a developed framework would additionally require providing projections for the green content of multi-annual budgetary plans and advanced framework would add reports on SOEs and extra-budgetary funds spending.

## Governance

**The national green budgeting frameworks should ensure that the roles and responsibilities of different players are clearly defined and that the required human and administrative resources are allocated.** This could be done via specific legislation, administrative procedure, methodology or any other suitable device. The leadership for designing and implementing green budgeting should in principle be assigned to the authority in charge of coordinating the budgetary process, i.e. the Ministry of Finance. In operational terms, a dedicated task force could be put in place on a temporary or ad-hoc basis in an essential framework and a permanent structure could be established in a developed framework. The coordinating authority should cooperate with other government actors (including in particular the Ministry of Environment or the environmental protection agency) and with non-governmental stakeholders, as well as liaise with the national parliament. In more advanced frameworks (level 3), the permanent central structure could be assisted by a network of ‘green budgeting correspondents’ in various ministries and agencies.

## Transparency and accountability

**Utmost transparency is advised.** This implies inter alia making public all deliverables and requiring an expert assessment on the ‘methodology’ (in an essential framework). In developed frameworks, these requirements should be complemented by an independent ex-post assessment of the deliverables, done by third parties or the national Court of Auditors, and by parliamentary scrutiny (e.g. via debates in the relevant parliamentary committees). An advanced framework would also consider the publication of ex-post reviews on a regular basis, which would evaluate the accuracy of assessments and the efficacy of the items in attaining the green objectives.