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# How Green Budgeting is Embedded in National Budget Processes

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## How Green Budgeting is Embedded in National Budget Processes

Simona Pojar

### Abstract

Green budgeting can help governments to incorporate environmental considerations into the budget decision making process and, thus, to meet their green commitments. Integrating such tools into the regular budget process is crucial to ensure that green budgeting can influence policy development and budget allocation. This paper presents an overview of how some EU Member States use green budgeting tools when planning the budget. It shows that, considering the various stages of the budget cycle, such tools are commonly used during the preparation phase, which is essential for the inclusion of green considerations into the budget. However, green budgeting has so far been mostly used to provide transparency over government actions and less so to decide on budget allocations. As the process matures, countries aim to use green budgeting more strongly as a decision-making tool.

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<sup>1</sup> [https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu\\_en#events](https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu_en#events).

## ABBREVIATIONS

DG Budget	Directorate General for the Budget (of the European Commission)
DG ECFIN	Directorate General for Economic and Financial Affairs (of the European Commission)
DG	Directorate General
DPENDR	Department of Public Expenditure, National Development Plan Delivery and Reform (Ireland)
GDP	Gross Domestic Product
IIA	Interinstitutional Agreement
MFF	Multiannual Financial Framework
MoF	Ministry of Finance
NECP	National energy and climate plan
OECD	The Organisation for Economic Co-operation and Development
SDGs	Social Development Goals
UN	United Nations
UNDP	United Nations Development Programme

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# 1. INTRODUCTION

**As green budgeting helps ensure that environmental considerations are incorporated into the budget decision-making process, it is crucial that such tools sit within a country's budgetary framework.** Fiscal policy and the annual budget cycle are among the most important instruments that governments have at their disposal to advance national policies, including on climate and the environment. Having green budgeting tools sit within a country's budgetary framework supports coherence and consistency in the government approach.<sup>2</sup> Furthermore, integrating green considerations into the budget process can help mainstream an environmentally aware approach across all policy areas. Green budgeting tools (e.g., green tagging or environmental impact assessments (Box 1)) need, however, to be integrated in the budget cycle to ensure that the information produced is used when developing new policies and deciding on budget allocation (Petrie M., 2021).

**Similarly, it is important that green budgeting fits within the medium-term fiscal framework.** Climate and environmental objectives are defined in a medium to long-term context, which comprises short, medium- and long-term goals that are consistent with climate change and environmental strategies. Climate and environmental outcomes are also increasingly recognised as 'macro-critical' because mitigating, and adapting to, climate change can reduce risks to economic growth and long-term fiscal sustainability. Thus, the greening of medium-term frameworks provides an opportunity to integrate climate and environmental aspects within macro-fiscal forecasts (European Commission, IMF and OECD, 2021).

**Green budgeting tools can be implemented across all stages of the budget cycle.** Green budgeting is performed in various ways and resorting to various tools (Pojar 2022, Bova 2021). These include green budget tagging, environmental impact assessments conducted for planned policies, and environmental evaluations conducted for executed policies (Box 1). Implementing these tools through the budget cycle implies that green aspects are considered when: (i) setting the government strategy (i.e., budget planning); (ii) developing and negotiating budget measures and broader policies (i.e., budget preparation); (iii) approving the budget allocations; (iv) implementing the budget, and (v) ensuring the accountability and transparency around the process (i.e., budget oversight).

**The paper draws on in-depth interviews carried out by DG ECFIN with officials from selected Member States and the Directorate General for Budget in the European Commission.** Though these countries apply several green budgeting tools, this study focuses on green tagging – for **France, Ireland and the EU** – and environmental assessments – for **Denmark, Finland and Sweden**.<sup>3</sup> Given the nature of the practices and the use of in-depth interviews the information provided is quite diverse across countries.

**This paper is structured as follows:** Section 2 presents key elements that can enable governments to integrate green budgeting into the budget cycle. Section 3 investigates ways to incorporate environmental considerations in the budget cycle and how they influence decision-making. Section 4 looks into transparency and accountability around the green budgeting process. Section 5 presents areas for development and challenges encountered in the process. Section 6 concludes. Country practices are highlighted throughout the paper, based on the interviews with Member States. Practices for the EU budget are also illustrated.

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<sup>2</sup> A comprehensive approach of priority budgeting would also include similar links between the budgetary framework and other key priorities, such as social and gender objectives, as well as the UN's Social Development Goals (SDGs).

<sup>3</sup> The selection of countries was based on the countries' responses to the European Commission Green Budgeting Survey, available at [https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu\\_en#tools](https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/green-budgeting-eu_en#tools), the analysis presented in previous Discussion Papers (Bova, E., (2021), Pojar, S. (2022)), and countries' availability to participate in the in-depth interviews.



### Box 1: KEY CONCEPTS OF GREEN BUDGETING

**Green budgeting:** A process whereby the environmental contributions of budgetary items are identified and assessed with respect to specific performance indicators, with the objective of better aligning budgetary policies with environmental goals (i.e., the contribution of budgetary items to green objectives).

Green budgeting tools:

**Green budget tagging:** Tagging encompasses practices that seek to identify budget measures contributing (positively or negatively, i.e., green or brown) to climate and the environment. The scope of tagging can include relevant expenditures and revenues whose main purpose is not related to climate and the environment.

**Ex-ante environmental impact assessments** of budgetary measures/policies: The assessment of budget measures in advance of their inclusion in the budget to ensure environmental and climate implications of decisions are taken into account when deciding on the budget.

**Ex-post environmental evaluations** of budgetary measures/policies: The assessment of budget measures after their implementation to help assess how effective they have been in reaching the environmental and climate objectives.

Source: European Commission, Survey on green budgeting practices.

## 2. ENABLING ENVIRONMENT FOR GREEN BUDGETING

### 2.1 LEGAL BASIS

**Political support for conducting green budgeting and a sound legal basis are essential to ensure the usefulness of the instrument in developing policies.** High-level political commitment and budget laws that require green considerations in the budget process can ensure that green budgeting helps meet environmental objectives. The legal basis can include provisions in the constitution, budget framework laws and administrative practices, illustrating a commitment to green budgeting beyond the electoral period (Blazey and Lelong, 2022). In addition, a green budgeting framework that has been passed into legislation can provide a strong anchor for the implementation of roles, responsibilities and requirements across government (European Commission, IMF and OECD, 2021).

**The legal provisions underpinning green budgeting practices vary across the countries interviewed and, in most cases, are not formalised within the budget law.** Furthermore, they do not provide for applying green tools throughout the entire budget cycle.

- In Denmark:

- Ø Climate-related work runs in parallel with the regular budget cycle and it is established in the Climate Act of 2020.<sup>4</sup> Under this Act, every year: (i) the Danish Energy Agency prepares a climate status report<sup>5</sup>, including projections of the Danish greenhouse gas

<sup>4</sup> The Climate Act was adopted by the Danish Parliament on 26 June 2020 [The Climate Act - Denmark - Climate Change Laws of the World \(climate-laws.org\)](https://www.climate-laws.org/en/legislation/denmark-climate-act-2020/). It sets a (legally binding) target of reducing greenhouse gas emissions in Denmark by 70 % by 2030 compared to a 1990 baseline and sets a long-term target for Denmark to be a climate-neutral society by 2050 at the latest.

<sup>5</sup> [https://ens.dk/sites/ens.dk/files/Basisfremskrivning/kf22\\_-\\_samlet\\_rapport.pdf](https://ens.dk/sites/ens.dk/files/Basisfremskrivning/kf22_-_samlet_rapport.pdf).



emissions, and (ii) the Ministry for Climate, Energy and Utilities prepares a climate programme for the parliament,<sup>6</sup> comprising a status report on progress in meeting climate targets and an overview of planned climate initiatives.

- ∅ For long-term initiatives covering individual sectors, e.g., the climate agreement for energy and industry, the various parties involved prepare together a programme proposal supporting the initiative. The government has to assess the expected socio-economic and climate impacts of such proposals and present their progress within its annual climate programme report.
- ∅ *Ex-ante* climate impact assessments are conducted for new policies and measures with an effect on the climate. This process precedes the Climate Act and is formalised in the general guidance on assessment of socio-economic consequences.

• **In France:**

- ∅ The green budgeting process was established by Article 179 of the Budget law 2019-1479 of 28 December 2019, applying for the first time on the budget for 2020.<sup>7</sup> It requires the government to submit to the parliament an annual report, annexed to the draft budget, on the environmental impact of the budget.
- ∅ In addition, the Constitutional law<sup>8</sup> requires the government to conduct impact assessments (including environmental ones) for new law proposals.

• **In Finland:**

- ∅ On the initiative of the Minister of Finance, in connection with the preparation of the 2018 Budget proposal, it was required that a declaration on sustainable development should be included in each main expenditure title. In addition, since 2019, an extended chapter in the budget proposal outlines the appropriations promoting green targets and provides a qualitative assessment of environmentally harmful subsidies. It also presents taxes relevant for achieving the goal of a carbon-neutral Finland,<sup>9</sup> as stated in the Climate Act of 2022.<sup>10</sup> The Climate Act lays down provisions on climate change policy planning and the related monitoring and sets the national climate objectives.
- ∅ Since 2020, the 'Regulation on budget preparation' requires line ministries to conduct impact assessments for budget policy proposals on sustainable development.<sup>11</sup> This requirement was previously stated in the budget circular.<sup>12</sup> In addition, legislative proposals need to be assessed, among other things, as regards their environmental impact on which there is detailed guidelines and principles to follow.<sup>13</sup>

• **In Ireland:**

- ∅ Green budgeting was introduced with the announcement of the Minister of Public Expenditure and Reform at the time of the 2019 Budget, pledging that Ireland would track climate-related expenditure starting with the Revised Estimates for Public Services Volume 2019.<sup>14</sup> The classification of 'green' expenditure is validated and updated every

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<sup>6</sup> <https://kefm.dk/Media/637995217763659018/Klimaprogram%202022.pdf>.

<sup>7</sup> <https://www.legifrance.gouv.fr/loda/id/JORFTEXT000039683923/>.

<sup>8</sup> <https://www.legifrance.gouv.fr/loda/id/JORFTEXT000020521873> (Article 8).

<sup>9</sup> <https://ym.fi/en/the-reform-of-the-climate-change-act>.

<sup>10</sup> <https://www.finlex.fi/fi/laki/smur/2022/20220423>.

<sup>11</sup> [Valtiovaraministeriön määräys toiminta- ja taloussuunnittelusta, JTS-valmisteluun liittyvien kehys- ja muiden ehdotusten sekä valtion talousarvioehdotusten laadinnasta liitteineen \(vm.fi\)](https://valtiovaraministerion.määräys.toiminta-ja.taloussuunnittelusta.JTS-valmisteluun.liittyvien.kehys-ja.muiden.ehdotusten.sekä.valtion.talousarvioehdotusten.laadinnasta.liitteineen.(vm.fi)).

<sup>12</sup> A budget circular is a document issued by the national Central Budget Authority to guideline ministries in the preparations of their initial budget proposals.

<sup>13</sup> [https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164423/VN\\_2022\\_66.pdf?sequence=4&isAllowed=y](https://julkaisut.valtioneuvosto.fi/bitstream/handle/10024/164423/VN_2022_66.pdf?sequence=4&isAllowed=y)

<https://oikeusministerio.fi/en/impact-assessment>.

<sup>14</sup> <https://www.gov.ie/en/press-release/070a4a-revised-estimates-for-public-services-2019-published/>.

year before being published in the Revised Estimates Volume, which provides additional detail to the parliament on the October budget statement.<sup>15</sup>

- ∅ In addition, the Climate Action and Low Carbon Development (Amendment) Act 2021 establishes Ireland's climate targets in legislation and includes sectoral 5-year carbon budgets (i.e., carbon emission ceilings).<sup>16</sup> Under the Climate Act, the Ministry of Finance extended the scope of the green budgeting exercise to revenue measures and tax expenditures.<sup>17</sup>
- In **Sweden**, the workstream on climate and environment is integrated in the regular budget process and in the general approach to performance budgeting.
  - ∅ The Budget law of 2011<sup>18</sup> requires the government to report to the parliament, in the draft budget, progress with achieving the goals set by the parliament.<sup>19</sup>
  - ∅ The Climate Act of 2018<sup>20</sup> requires the government to report, in the budget bill, progress towards achieving the national climate targets, including any gaps and potential additional measures needed. Also, every four years, the government must present to the parliament a climate action plan setting out strategies for its term of office, assessing their impact on achieving climate targets, and further action if needed.
  - ∅ The 'Regulation on impact assessment in rule-making'<sup>21</sup> applies to rules and recommendations issued by government agencies. The regulation, in conjunction with the Committee Regulation, also applies to government committees of inquiry that are tasked with preparing proposals e.g., for bills and regulation. It also serves as guidance for internal preparation work within the government, for instance when regulation is developed. While climate and environmental impacts are not specifically mentioned in the regulation, the regulation states that "costs and other relevant impacts" should be analysed. In other words, the regulation is general and should include all relevant impacts to society, including climate and environmental impacts. There is ongoing work to develop a new regulation on impact assessments, which would reinforce the use of such practices when proposing a new regulation. The new regulation is proposed to enter into force on 1 January 2024.
  - ∅ An inter-ministerial government policy on the integration of climate and environment considerations requires that policy proposals and documents that form the basis for decision-making must include, where relevant, an assessment of the impact on climate and environment based on specific guidelines.<sup>22</sup>
- For the **EU budget**, the seven-year long-term budget (the "multiannual financial framework") is the main reference for climate and biodiversity spending.
  - ∅ The Interinstitutional Agreement (IIA) between the European Commission, the European Parliament and the Council establishes the horizontal budgetary targets for green expenditures.<sup>23</sup> In particular, it commits to a 30 % climate mainstreaming target for the

<sup>15</sup> Latest version available: <https://www.gov.ie/en/collection/e20037-revised-estimates/#2023>.

<sup>16</sup> <https://www.irishstatutebook.ie/eli/2021/act/32/enacted/en/print>.

<sup>17</sup> The methodology is set out in the document entitled 'A Review of Green Budgeting from a Tax Perspective' as part of 2022 Budget: <https://www.gov.ie/en/publication/7e491-taxation-measures/>.

<sup>18</sup> [https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/budgetlag-2011203\\_sfs-2011-203/](https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/budgetlag-2011203_sfs-2011-203/), (Chapter 10, 3 §).

<sup>19</sup> These goals include an overarching environmental target with a set of 16 quality objectives: <https://www.sverigemiljomal.se/environmental-objectives/>.

<sup>20</sup> [https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/klimatlag-2017720\\_sfs-2017-720/](https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/klimatlag-2017720_sfs-2017-720/).

<sup>21</sup> [https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/forordning-20071244-om-konsekvensutredning-vid\\_sfs-2007-1244/](https://www.riksdagen.se/sv/dokument-och-lagar/dokument/svensk-forfattningssamling/forordning-20071244-om-konsekvensutredning-vid_sfs-2007-1244/).

<sup>22</sup> <https://www.regeringen.se/contentassets/6b3f1498121a4428afd7d3a0680b8ba2/miljopolicy-for-integrering-av-klimat-och-miljo-i-regeringskansliets-beredningsprocesser.pdf>.

<sup>23</sup> [https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020Q1222\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32020Q1222(01)&from=EN).

overall period (up from 20 % in 2014-2020) and a 7.5 % biodiversity mainstreaming expenditure target in 2024, increasing to 10 % in 2026 and 2027.<sup>24</sup>

- Ø The “do no (significant) harm principle” was first established in the Green Deal Communication<sup>25</sup> and then included in the IIA and sectoral legislations (for example the Recovery and Resilience Fund Regulation or Common Provisions Regulation), albeit with some differences in the concrete application.
- Ø The “Better Regulation guidelines” establish that EU actions and policies should pull together to help the EU to achieve a successful and just transition towards a sustainable future, in line with the objectives of the European Green Deal. A systematic assessment is done on impact assessments, evaluations, stakeholder consultations, and explanatory memoranda.

## 2.2 INSTITUTIONAL DESIGN

**Strong leadership and coordination among the relevant stakeholders provide for an effective implementation of green budgeting.** Like the regular budget process, green budgeting also requires a whole of government approach. Thus, a national framework that clearly defines the roles and responsibilities of the relevant parties involved (e.g., Ministry of Finance, Budget Department, line ministries, independent oversight bodies) together with a timeline for action and deliverables can ensure that green budgeting is implemented efficiently. An effective national framework also ensures that the required human and administrative resources are appropriately assigned. As for the budget process, finance ministries can take the leading role for green budgeting, while closely collaborating and coordinating with line ministries that hold specific knowledge on the different economic sectors.

**New institutional arrangements may be needed to support the integration of green practices in the budget cycle.** New or enhanced cross-agency coordination mechanisms may be required to coordinate green budgeting across the public sector, such as interdepartmental working groups and standing committees to support relevant cabinet committees (Petrie, 2021).

**Countries interviewed have different approaches to organising green budgeting and they have been adjusting their institutional setting** (Annex 2). Some countries have established a dedicated task force or division in the Ministry of Finance, responsible for coordinating the green budgeting process across the government. They have also established independent climate councils or committees that oversee government progress and actions and offer environmental policy advice. Such councils function in a similar manner to independent fiscal councils that supervise fiscal policy. External agencies with professional expertise on environmental assessments are also involved (Pojar, 2022).

- **In Denmark:**

- Ø The Ministry for Climate, Energy and Utilities is in the lead for preparing the climate programme report and collaborates with other government departments. New programmes and policies included in the report are prepared and submitted for approval in Danish government committees, including the Green Committee (chaired by the Minister for Climate, Energy and Utilities), the Economic Committee (chaired by the Minister of Finance) or the Coordination Committee, depending on the nature of the initiatives. The Green Committee was established in 2019 and aims to ensure that climate considerations are integrated into government policies.
- Ø The Danish Energy Agency, in cooperation with relevant ministries, conducts *ex-ante* climate impact assessments for new initiatives, in line with guidelines provided by the

<sup>24</sup> Climate mainstreaming requires EU programmes in all policy areas to consider climate priorities in their design, implementation and evaluation phases. More details can be found at the following link: [Climate mainstreaming \(europa.eu\)](https://climate-mainstreaming.europa.eu/).

<sup>25</sup> The European Commission Green Deal Communication is available at: [https://eur-lex.europa.eu/resource.html?uri=cellar:b828d165-1c22-11ea-8c1f-01aa75ed71a1.0002.02/DOC\\_1&format=PDF%20](https://eur-lex.europa.eu/resource.html?uri=cellar:b828d165-1c22-11ea-8c1f-01aa75ed71a1.0002.02/DOC_1&format=PDF%20).

Ministry of Finance.<sup>26</sup> The guidelines state that when new policy initiatives are expected to have implications on climate, their impact on CO<sub>2</sub> emissions must be assessed. They are supplemented by technical guidance on estimating climate and environmental impacts.<sup>27</sup>

- In **Finland**, line ministries are responsible for conducting impact assessments for their proposed policies, sometimes with the involvement of external experts. The final chapter on sustainable development in the budget bill is drafted by the Ministry of Finance. Overall, energy and climate policy measures are coordinated across ministries in the preparatory phase and involve an inter-ministerial task-force for cross-sector climate policy integration and discussion. This process also includes dedicated and regular forums for policy discussion.
- In **France**, an inter-ministerial working group was set up to lead the green budgeting process, comprising representatives from the Ministry of Finance (Directorate for Budget, Treasury and Economic Analysis, and Tax Policy) and the Ministry for Ecological Transition. The Budget Directorate is responsible for supervising the process, guiding and consulting line ministries in applying the green budgeting methodology. As of 2023, green budgeting has been integrated deeper in the ordinary budget process, with line ministries conducting green tagging for their proposed measures. Such information can then be discussed between the Budget Directorate and line ministries during draft budget deliberations. Training on how to apply the methodology will be provided to line ministries.
- In **Ireland**, green budgeting is conducted from two different perspectives. On the one hand, the Climate Coordination unit at the Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDR) conducts climate tagging for expenditure measures. This exercise sits within the broader performance budgeting framework. DPENDR gives clear indications to line ministries on how to conduct green tagging and works closely with those involved in the process. On the other hand, the Department of Finance is responsible for the revenue measures and tax expenditures, tracking the green components of these.
- In **Sweden**, government agencies have the responsibility to prepare the annual reports presenting the developments on the environmental quality objectives. The Environmental Protection Agency sums up the analysis and presents it to the Ministry of Climate and Enterprise, which prepares the final report on the environmental impact of government policies attached to the budget bill. The Environmental Protection Agency also prepares a draft version of the separate climate report, which is finalised by the Ministry of Climate and Enterprise and attached to the budget bill. The work of government agencies also feeds into internal memoranda within the government offices.
- For the **EU budget**, the Directorate General for the Budget (DG Budget) leads the work, with the support of the Climate and the Environment Directorates General. DG Budget prepares the guidelines and provides steering for the different budget-related processes (annual budget, reporting, work programmes, etc.), while the other two 'policy' Directorates General support on content. Each Directorate General of the Commission is responsible for the tagging of green expenditures and ensuring that its policies effectively mainstream the EU's green priorities in the respective sectors.

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<sup>26</sup> These guidelines have been consistent over the years but are updated when new information is available, having thus been enhanced with an environmental and climate perspective.

<sup>27</sup> [https://kefm.dk/Media/4/0/Vejledning%20om%20vurdering%20af%20konsekvenser%20for%20klima%20milj%C3%B8%20og%20natur%20\(2\).pdf](https://kefm.dk/Media/4/0/Vejledning%20om%20vurdering%20af%20konsekvenser%20for%20klima%20milj%C3%B8%20og%20natur%20(2).pdf)

## 2.3 PERFORMANCE AND PROGRAMME BUDGETING

### **Performance budgeting helps to integrate green budgeting in the regular budget cycle.**

Performance frameworks enhance the effectiveness of public policy by linking (financial) inputs to socio-economic outcomes (impact). Performance-based budgeting is the systematic use of performance information in budget decisions (OECD, 2019). It aims to improve the effectiveness and efficiency of public expenditure by linking public sector funding with the results they deliver (Robinson, 2011). Countries with a performance budgeting framework in place can integrate green considerations into that framework, including by defining clear policy targets for environmentally relevant initiatives and introducing performance indicators to help monitor the environmentally relevant outputs, and later the outcomes, of these policies (Box 2).

### **Programme budgeting can enhance the functioning of performance-based budgeting and the monitoring of environmental outputs and outcomes.**

A budget programme can be defined as “a group of projects and/or activities that are intended to give effect to a policy” and which pertain to a specific department (Blazey and Lelong, 2022). A budget structured into programmes can facilitate the implementation of performance and green budgeting as it identifies how (climate and environmental related) expenditure is organised relative to government policies and priorities, and across various departments. Programme budgeting also supports reporting and monitoring progress towards reaching climate and wider environmental targets (Gonguet et al., 2021).



#### Box 2: ‘GREENING’ PERFORMANCE BUDGETING – COUNTRY EXAMPLES

**France** has a performance budgeting framework in place, since 2006, and it publishes two related reports, annexed to the draft budget: (i) the performance plan, on the expected impact of government action, and (ii) the performance report, presenting the implementation of the commitments made in the previous annual performance plans. Starting with the 2022 green budget report, France presents environmental performance information for some of the budget elements captured in the green tagging exercise, which are drawn from the annual performance reports.

**Sweden** has had since 1999 a ‘target system’ to monitor environmental developments in place, which is embedded in the regular performance budgeting process. It comprises an overarching environmental goal and 16 environmental quality objectives, each with specific milestones and targets, performance indicators and assessment criteria based on which the results are presented annually. Since the introduction in 2018 of a climate law in Sweden, a separate climate report on the progress towards achieving the country’s climate goals is attached to the budget bill.

**Ireland** has been conducting performance budgeting since 2011, which includes some climate elements. It plans integrating a more comprehensive green perspective into the framework and thus widening the scope of the climate related performance metrics (Pojar, 2022 – Box 6).

The **EU budget** also has a performance framework in place. Thanks to the “EU Budget Focused on Results” initiative in 2014, performance now is an integral part of all budgetary programmes. These include indicators on climate and biodiversity, which are assessed regularly in the context of the annual budget procedure. In addition, the Commission is developing an “Aggregate Result Indicator” to calculate the impact of the EU budget on greenhouse gas (GHG) emission avoided.

Source: Pojar, S. (2022).

### 3. CALENDAR OF THE GREEN BUDGETING PROCESS AND ITS LINK WITH THE BUDGET CYCLE

**A sound green budgeting framework implies integrating green budgeting tools across all stages of the budget cycle:**

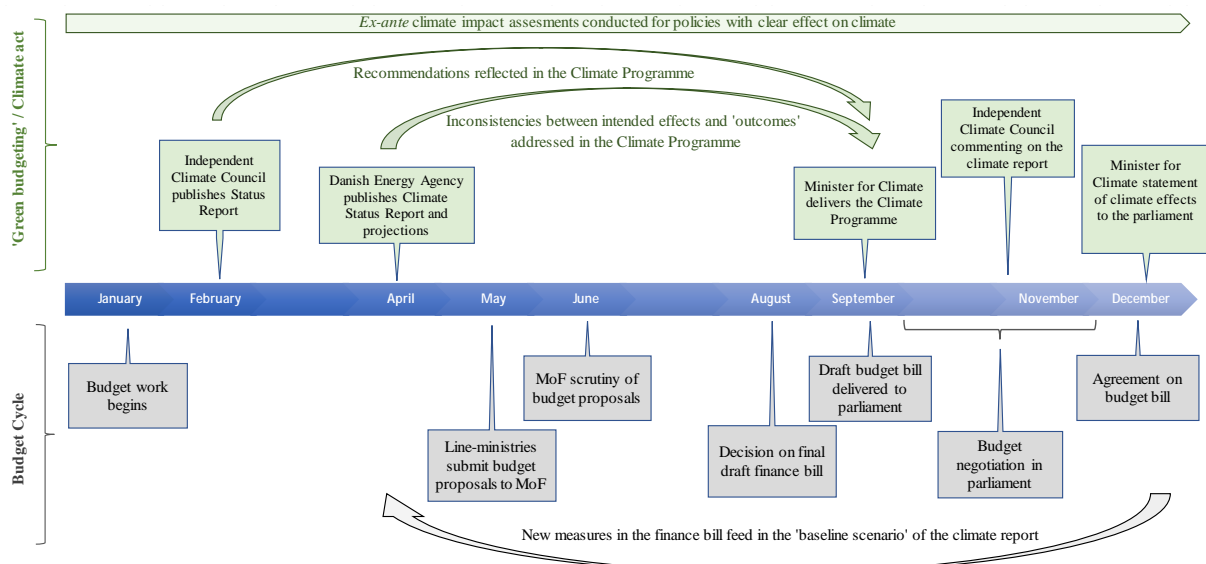
- **Budget planning:** climate and environmental objectives can be defined when setting the macroeconomic priorities and overall government strategy underpinning the budget. This helps orient fiscal planning, ensures that environmental priorities are reflected in the government plans and confers consistency on environmental action across budget decisions. Such consistency can be further enhanced by integrating the green budgeting process into the medium-term budgetary framework, by including macro-fiscal implications of climate change and related policies over the medium and long term. Green priorities can already be stated in a budget circular, which provides guidance on budgetary allocation by: (i) providing indication of the priorities for the medium term; and (ii) helping ministries plan their actions (i.e., preparation of budget submissions) in line with those priorities. The budget circular can provide incentives for line ministries to conduct green budgeting including through: (i) a statement that climate and environmental aspects will be a criterion for budget allocations; and (ii) a requirement that ministries link their proposals to strategic environmental priorities (Gonguet et al., 2021) and/or provide an environmental cost and/or impact assessment of the proposed policies (Petrie, 2021).
- **Budget preparation:** conducting *ex-ante* green budget tagging and environmental impact assessments for new budget proposals can help understand the financial cost and likely impact of budgetary allocations in reaching green objectives. Such information can support budget negotiations between the finance ministries/budget directorates and line ministries, to ensure that environmental considerations are integrated when deciding on budget allocations. Similarly, it is also relevant to understand the potential environmental impact of the sources of financing for the overall budget (e.g., revenue measures, tax expenditures). When developing new policies, having a performance budgeting system in place enables the integration of environmental considerations in line with national targets set in the planning stage.
- **Budget approval:** including relevant green budgeting information in the documentation package for budget hearings and negotiations in the parliament enables better-informed decision-making. A requirement for the parliament to discuss such information during budget deliberations or hold dedicated hearings with relevant ministries or committees can ensure this information feeds into the final decision on budget allocation. The format in which the information is presented is also important, so the parliament can easily grasp the main messages and understand how to use it when deliberating the budget (World Bank, 2021).
- **Budget execution:** having an expenditure reporting system in place enables countries to incorporate green aspects in the budget execution phase (UNDP, 2021). At this stage, various tools can be implemented such as: (i) *ex-post* green budget tagging, to check whether planned green expenditure has been spent as approved, and not reallocated to other policies and measures; and (ii) environmental evaluations of policies (e.g., spending reviews, performance analysis). Overall, such tools assess the effectiveness and efficiency of government actions in reaching green objectives. Published along budget documents, they increase transparency and accountability to legislature, civil society and citizens (UNDP, 2021). Tailoring the information to the needs of different audiences is also key at this stage.
- **Budget oversight:** regular and transparent reporting on green budgeting enhances budget oversight by the designated institutions. This stage helps detect any “greenwashing” behaviour and discourages such intentions. Environmental audits and evaluations of policies could be conducted by the national audit offices, climate councils and committees, and the parliament.

**Countries have different approaches to integrating green considerations and tools in the budget cycle and the results are gradually feeding into budget negotiation and approval process** (Annex 1). While green tools are not inserted in all phases of the budget cycle, they are commonly used during the budget preparation stage, which is essential for the inclusion of green considerations into the budget.

• In Denmark:

- ∅ The climate-related workstream is not formally integrated in the budget cycle but the two processes run in parallel (Figure 1). Underpinned by the Climate Act, in April, the Danish Energy Agency publishes its annual climate status report, which assesses the climate effects of already decided policies. The results of this report are addressed in the climate programme of the government – presented to parliament in September. The climate programme also contains assessment by the government of whether it deems it probable that the climate target for 2030 will be achieved, as well as assessments of climate policies, thus supporting negotiations on the budget bill. In parallel, in February, the Climate Council publishes a similar status report including recommendations on action going forward, which also feed into the climate programme of the government.<sup>28</sup>
- ∅ The regular budget cycle starts in January. The draft budget is decided upon in June and presented to parliament in August, followed by negotiations. The final budget bill is passed and published in December.<sup>29</sup> After this, the Minister for Climate, Energy and Utilities must present a report on the effects of the government climate policy and answer questions in a debate in the parliament. This enables the parliament to annually assess whether the government initiatives are sufficient to meet the climate targets or if more should be done and, accordingly, ask the Ministry for Climate to propose further actions (Danish Ministry of Climate, Energy and Utilities, 2020).
- ∅ In parallel, all budget proposals with a clear impact on climate should be reviewed and assessed (i.e., conducting *ex-ante* environmental impact assessments).

Figure 1: Budget cycle versus green budgeting in Denmark



Source: In-depth interview, Climate Programme 2020.

<sup>28</sup> <https://klimaraadet.dk/da/udgivelser>.

<sup>29</sup> New measures included in the budget bill will then feed into the following year climate status report prepared by the government.

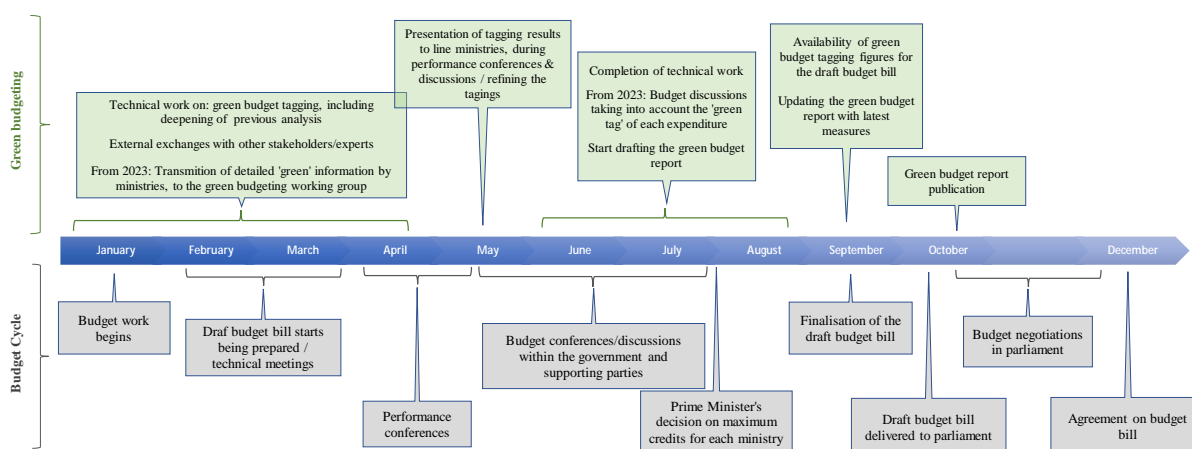
**In Finland:**

- Ø Ministries are required to assess the implications of the proposed measures on sustainable development on the basis of the budget regulation. For relevant sectors, and for policies with a clear and meaningful impact on environment, more rigorous environmental impact assessments are conducted, relating mostly to legislation proposals. In May, line ministries submit their budget proposals, including the analysis, to the Ministry of Finance, which then prepares a chapter on sustainable development outlining the appropriations promoting climate and environmental objectives. The chapter is then submitted to the government for discussion on the draft budget at the end of August and sent to the parliament in mid-September, as part of the draft budget. Thus, during the deliberations on the budget bill, from September to December, the parliament has information on: environmental impacts of law proposals, which relate to the budget, appropriations promoting environmental objectives, and progress on sustainable development of the budget.
- Ø In general, energy and climate policy measures are coordinated across ministries in the budget preparation phase. This coordination includes both integrated energy and climate policy planning work across ministries as well as regularly convening dedicated forums for policy discussion. Impact assessments of various measures are also discussed.

**In France:**

- Ø The green budgeting process runs in parallel with the budget cycle, which starts in spring (Figure 2). From January to April, the green budgeting inter-ministerial working group prepares a green tagging for budget items, including a deepening of previous analysis, that is then discussed with the line ministries during the performance conferences (in May). During the summer, the working group prepares the green budget report, which is then updated in September with the new measures presented in the draft budget, before it is published and sent to the parliament.
- Ø As of 2023, green budgeting has been integrated into the regular budget process, to better consider the environmental impact of the proposed measures in the decision-making process. This entails that environmental tags and impacts of planned measures should be discussed with the line ministries during budget preparation and before the draft budget bill is presented to the parliament.

Figure 2. Budget cycle versus green budgeting in France



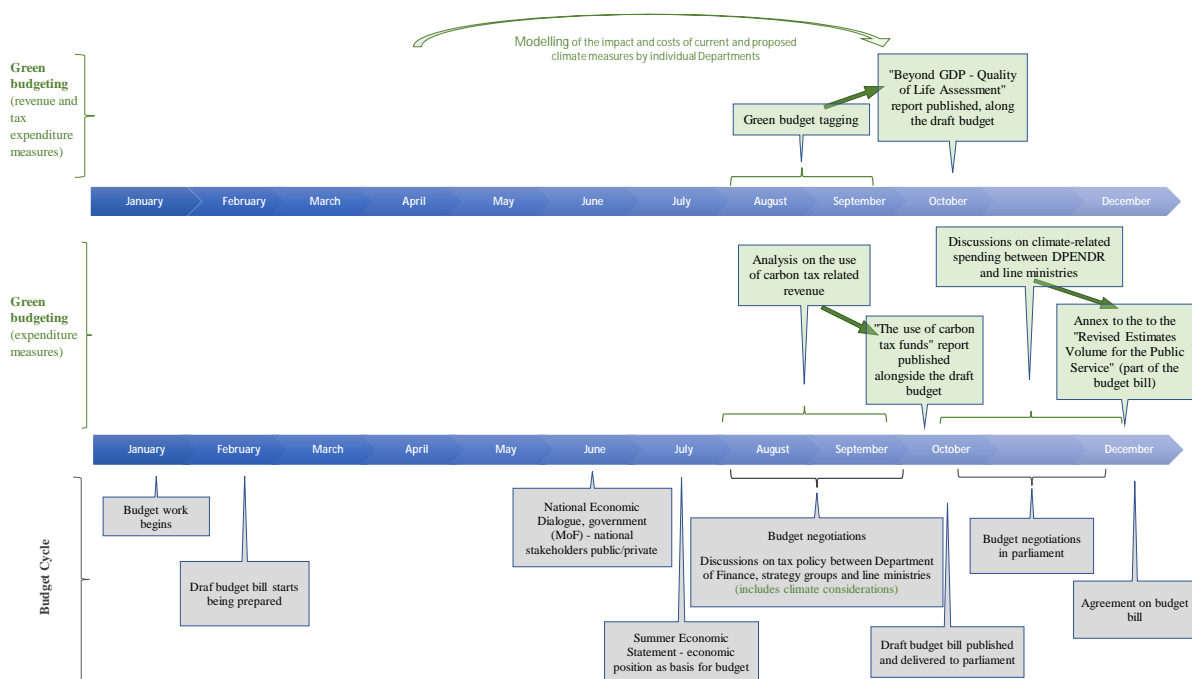
Source: In-depth interview.



**In Ireland:**

- Ø *Tagging of expenditure measures:* discussions on climate-related spending between DPENDR and line ministries take place from October (after the publication of the draft budget) to December (when the budget is discussed and adopted in the parliament). So far, the tagging exercise has served to inform the government and the parliament on climate-related expenditure over time and across the different government departments. It also provides a platform that can support more in-depth analysis of individual measures, policies or programmes, such as spending reviews, and *ex-ante* and *ex-post* assessments. The multiannual capital expenditure programme, contained in the National Development Plan, underwent climate and environmental assessment prior to revision in 2021.<sup>30</sup> The methodology used in assessing spending proposals contained within the plan is undergoing further refinement and will inform future iterations of the tagging exercise.
- Ø *Tagging of revenue and tax expenditure measures:* in advance of the budget, the tax policy proposals are put together, along with their green tag. This green budgeting exercise incorporates: (i) a tagging of changes to climate related revenue and tax expenditure measures (e.g., the increase in the Carbon Tax by EUR 7.50 in Budget 2023); and (ii) an *ex-post* exercise capturing historical outturn data of completed measures (e.g., the entire revenue raised from the Carbon Tax in 2020).<sup>31</sup> The results are presented in October together with the budget, as part of a wider document examining quality of life, entitled “Beyond GDP – Quality of Life Assessment”.<sup>32</sup>

Figure 3: Budget cycle versus green budgeting in Ireland



Source: In-depth interview.

<sup>30</sup> <https://www.gov.ie/en/press-release/7ac57-government-launches-the-renewed-national-development-plan-2021-2030/>.

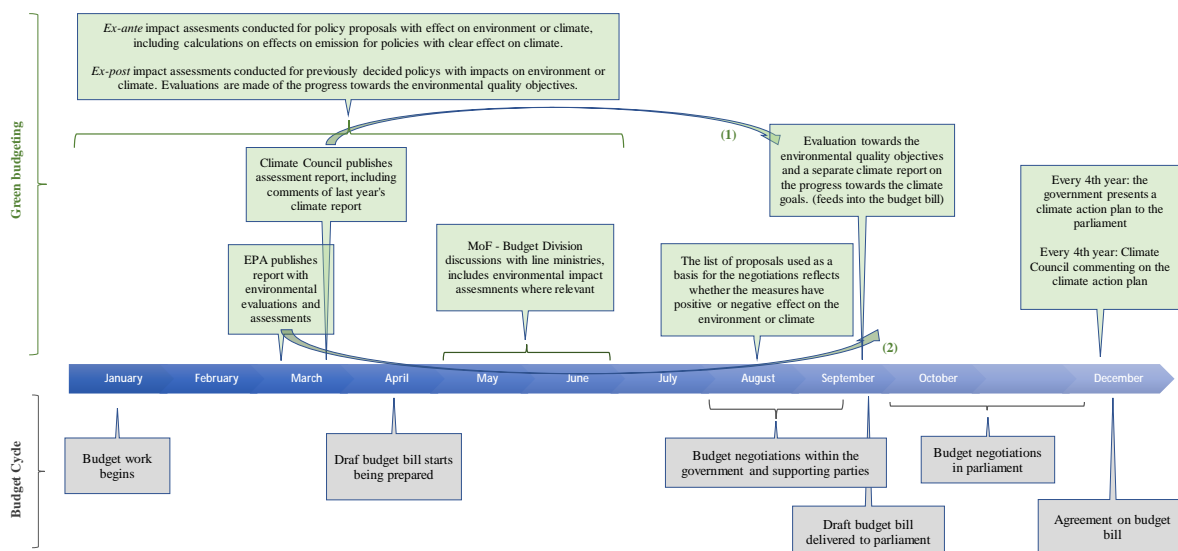
<sup>31</sup> For example, for the Budget 2023 publication, this incorporated data between 2011 and 2020.

<sup>32</sup> The green budgeting exercise is complemented by annual discussions on tax policy (as part of the budgetary process) between the taxation division in the Finance Department and dedicated strategy groups and line ministries, which include consideration of climate related tax policy and the climate implications of policy measures.

• In Sweden:

- ∅ In early spring, line ministries and government agencies start preparing new policy proposals, and related (environmental) impact analysis, and submit them to the Budget Department in May. After bilateral discussions during May and June, the Budget Department prepares a list of proposals, which also reflects whether a measure has a positive or negative impact on climate or the environment. The list is discussed during draft budget negotiations and main messages, including on environmental aspects, feed into the budget bill submitted to the parliament in September.
- ∅ Also attached to the draft budget and discussed during budget negotiations are the annual reports on (i) evaluation towards the environmental quality objectives, and (ii) on the progress towards the climate goals (i.e., the climate report). These are then debated in the environmental and agricultural committee in the parliament.
- ∅ In parallel, in March, the Environmental Protection Agency provides a report on progress towards environmental goals and a separate climate report, which serve as the basis for the report on the environmental impact of government policies and the climate report, that are attached to the budget bill. At the same time, the Climate Policy Council submits its assessment report including recommendations for further actions, to which the government responds in its climate report.
- ∅ Whenever large interventions are needed, major policies or legislative proposals are analysed in committees of inquiry. An environmental impact assessment needs to be included for all proposals where an environmental or climate impact is expected. Resulting proposals and analysis are then sent out for public consultation (including to environmental agencies and organisations when relevant), before feeding into the deliberations on the draft budget.

Figure 4: Budget cycle versus green budgeting in Sweden



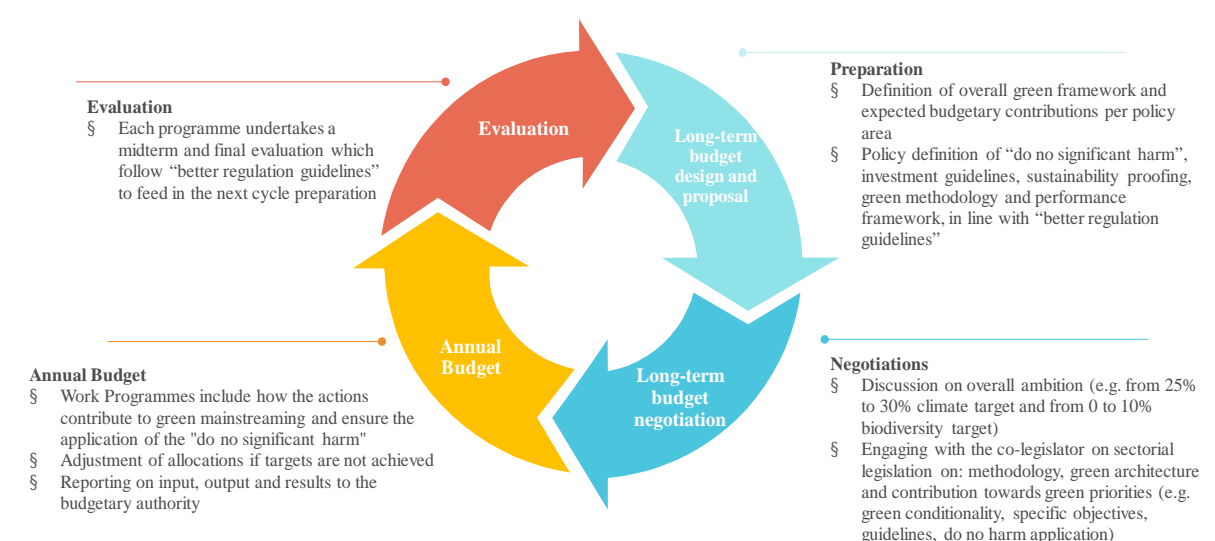
Notes: (1) Recommendations are reflected in the climate report as part of the draft budget bill.  
 (2) Inconsistencies between intended effects and "outcomes" are addressed in the evaluations of progress towards the environmental quality objectives, as part of the draft budget bill.

Source: In-depth interview.

For the **EU budget**, the focus is over the 7-year long-term budget (the “multiannual financial framework”, or MFF):

- Ø For the current MFF (2021-2027), the preparation started around 4 years before its launch. During the preparation, the green framework, including targets for every policy area, methodology and performance framework, were first developed.
- Ø The negotiations between the European Parliament and the Council started in 2018 after the Commission proposal. As result of the negotiations the climate target was increased from 25 % to 30 % of the overall budget and a new biodiversity target was introduced – along with a “climate adjustment mechanism” to ensure that the climate target would be achieved. Furthermore, the “do no (significant) harm” principle was introduced.
- Ø During the implementation of the MFF, the methodology is applied directly in the financial system, where every expenditure managed by the Commission is tagged for its green relevance. During the annual budget procedure each department reports on past expenditures and forecast future ones, as part of their performance analysis.
- Ø Each programme has two evaluations, a midterm (usually starting in N+3) and a final one (around two years after the conclusion of the programme). The evaluations have to include the green dimension in their analysis. They will be used as base for the preparation of the following MFF.

Figure 5: **Green budgeting in the EU multiannual financial framework**



Source: In-depth interview.

## 4. EVALUATION, TRANSPARENCY AND ACCOUNTABILITY

### 4.1 EVALUATION

**Ex-post evaluations reveal how effective policies have been and can inform the design of future budgets.** Environmental evaluations assess to what extent policies have delivered on their objectives, how relevant they are in improving the environmental outcomes and how coherent they have been with broader green commitments. They can offer a comprehensive analysis of results and impacts, allowing lessons to be drawn and thus providing important insights for the design of future budgets. Such processes can be conducted either on a regular or ad-hoc basis, with the latter often being the case for spending reviews. Common to these practices is the use of policy or programme objectives, performance indicators, intermediate outputs and expected outcomes that are best linked to budget planning (UNDP, 2021).

**Evaluation methods vary across the interviewed countries and, in most cases, are not conducted systematically.**

- In **Denmark**, an annual climate review mechanism is in place, whereby the Danish Energy Agency highlights whether ongoing policies are sufficient to meet climate targets and whether past policies have delivered on their objectives. Any inconsistencies would have to be addressed by the government in its climate programme. The independent Council on Climate Change evaluates all climate policies and provides recommendations to which the government responds. Furthermore, an independent economic committee also assesses climate policies, by using its own evaluation methodology and modelling.
- In **Finland**, the government reports progress towards the sustainable development goals, published in a dedicated chapter of its annual report. In addition, ministries publish their own progress towards sustainable development in their annual accountability reports, as recommended by the State Treasury.
- In **France**, the green budget report contains environmental performance information for some of the budget elements tagged as green or brown, which helps better understand the effectiveness and efficiency of public expenditure. The report also contains outturn data on green tagging performed in previous years, which allows comparison with planned data at the time of budgeting. In addition, for some green strategies (e.g., low-carbon national strategy) *ex-post* evaluations are conducted.
- **Ireland** has in place a spending review process and plans to include green considerations into the performance framework. In addition, as part of the budget documents, Ireland reports detailed information on programmes in receipt of revenue raised from the annual increase in carbon tax, including expected outcomes. Lastly, the Climate Change Advisory Council has reviewed the green budgeting methodology from a tax perspective.
- **Sweden** has in place a 'target system' to monitor environmental developments comprising 16 environmental quality objectives (each with specific milestones and targets), 'evaluation' indicators and assessment criteria based on which the results are presented annually. Several government agencies prepare relevant reports for the government. This system is embedded in the regular performance budgeting process. In the annual climate report, attached to the budget bill, the progress and gap towards the climate goals are evaluated separately. In addition, the Climate Council evaluates annually the compatibility of government overall policy with the climate targets.

- In the context of the **EU budget**, every funding programme is monitored in the Programme Performance Statement (part of the Budget proposal) and as part of the midterm and final evaluations of the Multiannual Financial Framework. These evaluations contain the progress made on the expenditure targets of climate and biodiversity, as well as progress on other related milestones and targets. The European Court of Auditor checks the Performance Statements as part of its analysis in the discharge procedure and can produce ad-hoc reports ("Special Reports").<sup>33</sup>

## 4.2 TRANSPARENCY AND ACCOUNTABILITY

**Reliable and regular reporting of comprehensive, useful, and accessible green budgeting information increases transparency and accountability around budget decisions and is relevant to the entire budget cycle.** In particular, reporting green budgeting data enables the parliament, civil societies and the public to monitor government efforts. Regular reporting is a precondition for effective environmental governance and therefore a key supporting component of the progressive greening of fiscal policy (Petrie, 2021). In addition, a clear presentation of the methodology used enhances the reliability and accountability of the data provided.

**The interviewed countries publish the main results of their environmental-related work, often alongside budget documents.** More detailed analysis is usually not published as it involves laborious technical work, which is not straightforward to non-experts, and furthermore could blur the key messages. However, such information is provided by line ministries to the government for budget deliberations, available for the parliament at request, and sometimes discussed in dedicated committees.

- In **Denmark**, the climate programme, annexed to the draft budget, presents cost estimates of active policies and possible measures, including estimates of both socio-economic and climate effects, and where possible shadow prices.<sup>34</sup> Detailed analysis on climate impact assessments is not published but such documents are shared with the political parties and at times serve as input to budget negotiations.
- In **Finland**, detailed information on environmental impact assessments of legislative proposals is in general publicly available. Assessments of proposed measures and policies are made available to the Ministry of Finance for the discussions on the draft budget in so far as they are connected to the budget.
- In **France**, green budgeting information is published as an annex to the draft budget. Detailed analysis is made available for the government and parliament on request.
- In **Ireland**, analysis on the use of carbon funds is published together with the draft budget.<sup>35</sup> In addition, a summary of expenditure on climate-related measures is published in the final budget report, entitled the 'Revised Estimates Volume for the Public Service'.<sup>36</sup> The results of the green tagging of tax measures is published alongside the draft budget, within the document entitled "Beyond GDP - Quality of Life Assessment".<sup>37</sup>
- In **Sweden**, an annex presenting developments towards the environmental quality objectives as well as the climate report are attached to the draft budget. More in-depth environmental impact assessments, conducted for new policy, are not always published but are made available during negotiations on the draft and final budget bill.

<sup>33</sup> [https://www.eca.europa.eu/Lists/ECADocuments/SR22\\_09/SR\\_Climate-mainstreaming\\_EN.pdf](https://www.eca.europa.eu/Lists/ECADocuments/SR22_09/SR_Climate-mainstreaming_EN.pdf)

<sup>34</sup> [https://kefm.dk/Media/637685023210599857/Bilag%201%20-%20Bruttovirkemiddelkatalog\\_OPDT.pdf](https://kefm.dk/Media/637685023210599857/Bilag%201%20-%20Bruttovirkemiddelkatalog_OPDT.pdf)

<sup>35</sup> <https://www.gov.ie/en/publication/04fef-budget-publications/>

<sup>36</sup> <https://www.gov.ie/en/collection/e20037-revised-estimates/> (appendix 8 and 9).

<sup>37</sup> <https://www.gov.ie/en/publication/04fef-budget-publications/>

- For the **EU budget**, the Statement of Estimates (main document of the Draft Budget) presents the aggregated data on the expenditure targets distinguished by funding programme. Each Performance Statement includes a section on “green budgeting” where quantitative and qualitative analysis are included.

### 4.3 INVOLVING THIRD PARTIES

**Public participation can enhance the accountability around policy decisions and help the greening the fiscal policy.** Civil society, think tanks and climate councils, if provided with necessary information and opportunities to engage in public debate, can enhance the greening of fiscal policy by providing independent assessments and advice (Petrie, 2021). Governments can promote debate on environmental policy and resource allocations by organising consultations and forums (World Bank, 2021).

**The countries interviewed recognise the significance of public debates in achieving their green commitments and as such involve several third parties in discussions on the budget.**

- In **Denmark**, sector-specific civil society bodies are consulted for new legislative proposals before they are presented to the parliament. In addition, government cooperation fora are also consulted, including dedicated climate partnerships with the business community, a Citizens’ Assembly and a Youth Climate Council (Danish Ministry of Climate, Energy and Utilities, 2020).
- In **Finland**, draft government proposals and working group reports that include policy proposals and impact assessments are regularly circulated for comments to stakeholders both within the government and outside (e.g., Finnish Climate Change Panel, NGOs, industry organisations, scientific panels) before their inclusion in the budget.
- In **France**, civil society bodies and think-tanks (e.g., Institute for Climate Economics) are closely involved in debates. Furthermore, the media reacts quite substantially on the green budget reports.
- In **Ireland**, the National Economic Dialogue acts as the principal institutional forum for public consultation and discussion on the budget.<sup>38</sup>
- In **Sweden**, government agencies, which are semi-independent bodies, provide analysis for the government. The reports by the committees of inquiries on proposed major policies or law proposals are sent out for a public consultation. If they propose policies with consequences for the budget, the government takes these proposals and the public consultation into account during the draft budget deliberations.
- At the **EU level**, the budgetary authority and the European Court of Auditors monitor the process and give recommendations on a regular basis. In the context of biodiversity, the European Commission has based its new biodiversity tracking methodology, which aims to tackle the shortcomings of the prior methodology, on an extensive external study.

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<sup>38</sup> <https://www.gov.ie/en/publication/cdf2e-national-economic-dialogue-2022/>

#### 4.4 LINK WITH NATIONAL CLIMATE STRATEGY

**Countries develop various medium- and long-term strategy plans reflecting their policies and commitments to reaching both EU and national climate and environmental targets.** EU Member States are required to submit a 10-year national energy and climate plan (NECP) on planned actions to reach the EU energy and climate targets for 2030.<sup>39</sup> In addition, they are required to develop national long-term strategies to meet their Paris Agreement commitments, while ensuring they are consistent with the NECPs.<sup>40</sup> In parallel, governments develop additional multi-year national development plans, which set medium- and long-term priorities (e.g., national infrastructure plans) and which often include climate and environmental considerations.

**Anchoring green budgeting to environmental strategies and multi-year plans helps increase the credibility and accountability of the process and ensure consistency in government action.**

National strategies and plans focus mainly on investments, both public and private, and in large part would have to be incorporated into the government medium-term planning and implemented through annual budget allocations (Petrie, 2021). Thus, these strategies and plans provide a logical anchor for green budgeting, which is also a long-term-oriented process, implemented through medium-term plans and annual budgets. Furthermore, green budgeting helps ensure that budget measures and policies achieve the same green commitments of the national climate and environmental strategies. As such, linking the two processes helps ensure consistency in the government approach to achieving the green objectives. Also, it indicates strong political support that goes beyond the electoral period.

**For the interviewed countries, there is not always a direct link between their NECPs and green budgeting.** As the NECPs also cover private investment, a clear link with the green budgeting process is not always straightforward. Similarly, the NECPs focus on carbon emission reductions whereas in many cases green budgeting covers several environmental objectives (e.g., pollution, biodiversity). Nevertheless, as the NECPs are periodically updated and the green budgeting work is developing continuously, such links may become more apparent in the future. Some good examples of linking green budgeting with the NECPs are emerging (Box 3).



##### Box 3: GREEN BUDGETING VERSUS NATIONAL ENERGY AND CLIMATE PLANS (NECPs) – EMERGING PRACTICES

The **Swedish** NECP is a compilation of Sweden's climate and energy policy and objectives set by the parliament, with related budget measures. The progress reports prepared every two years in the context of the NECP present measures included in the green budgeting-related documentation, reflecting progress towards the climate and energy objectives.

In **Ireland**, the green budgeting process is a key action of the Departments of Finance and of Public Expenditure, National Development Plan Delivery and Reform to ensure that the carbon budgets – set in the legislation – are met. The Climate Action Plan for 2023 emphasises green budgeting as a tool for achieving the carbon budgets.

Source: In-depth interviews.

<sup>39</sup> [https://energy.ec.europa.eu/topics/energy-strategy/national-energy-and-climate-plans-necps\\_en](https://energy.ec.europa.eu/topics/energy-strategy/national-energy-and-climate-plans-necps_en).

<sup>40</sup> [https://commission.europa.eu/energy-climate-change-environment/implementation-eu-countries/energy-and-climate-governance-and-reporting/national-long-term-strategies\\_en](https://commission.europa.eu/energy-climate-change-environment/implementation-eu-countries/energy-and-climate-governance-and-reporting/national-long-term-strategies_en).

## 5. AREAS FOR DEVELOPMENT AND CHALLENGES

**Several common areas for development have been identified among the countries interviewed.** Steps to expand green budgeting are being taken, including by providing dedicated training to line ministries and agencies and setting minimum requirements for using green tools when proposing new measures and policies. Countries have identified the following areas for development:

- A **coherent and systematic implementation of green budgeting tools** across all sectors, ministries and type of policies. For example, environmental assessments are sometimes conducted only for sectors and policies with a clear impact on climate and/or the environment. This approach may fail to capture significant impacts in sectors with an indirect link to the environment. Some countries are acting to overcome such shortcomings (Box 4). In this respect, **institutionalising the green budgeting process** may help ensure its systemic application in the decision-making process. (Box 4)
- **More use of ‘green’ spending reviews** and green considerations in **performance budgeting** could help better understand the environmental impact of past and ongoing policies and help shape future budgets and plans.
- The **link between *ex-ante* impact assessments and *ex-post* evaluations** could be strengthened. Decisions are made on *ex-ante* impact assessments, which mainly reflect initial intentions, that often carry significant uncertainties. Only *ex-post* evaluations can help understand how government actions contributed to reaching the green targets.
- Ensuring **quality control** and safeguards to avoid greenwashing.
- **Follow-up environmental action to the green budgeting results:** green budgeting provides a global view of the budgetary and fiscal expenditures and thus transparency on government actions. However, even if fully integrated in the budgetary cycle and as a systemic decision-making tool, green budgeting helps prepare the finance bill but does not define the environmental strategy. Thus, further government action is required to tackle the environmental challenges.



### Box 4: A COMPREHENSIVE APPROACH TO GREEN BUDGETING, COUNTRY EXAMPLES

**Denmark** is developing a new climate-economic model (GreenREFORM) to assess: (i) the economic and fiscal impact of climate and environmental policies, and (ii) the climate and environmental impact of economic policies. The model would ensure consistency of environmental analysis across ministries and capture the climate-impact of the entire budget.

**Sweden** aims to harmonise the use of environmental impact assessments across government agencies, which is suggested to become mandatory for new proposals, and provides the agencies with dedicated training and a common methodology (\*). In addition, it is suggested that the Management Authority should provide special outreach support to committees and special investigators in their work with impact assessments.

**France** plans to make green tagging a key tool for budget negotiations between the budget department and line ministries and will develop green budgeting capacity, through trainings.

\* <https://www.naturvardsverket.se/contentassets/9f062007e3dc4f7f9265ad918fcb3bef/vagledning-klimatoeffektbedomningar.pdf>.



**Countries face similar challenges to integrating green budgeting into the regular budget cycle:**

- **Capacity limitations** in the ministries is one of the main constraints, including mobilisation of sufficient human resources and development of interdisciplinary expertise.
- Establishing a **strict calendar of the budget process** is also a challenge. For example, sometimes information from green tagging and impact assessments comes at a late stage and thus cannot efficiently inform decision making. Similarly, it is difficult to conduct impact assessments for measures that are proposed at a late stage in the cycle. Nevertheless, such 'late' assessments can inform future budgets and provide an overview of how existing government actions contribute to the green objectives. In addition, the strict timeline may not allow for a comprehensive governance of the green budgeting process (i.e., involving all line ministries).
- Often, it is challenging to understand the link between government policies, their cost and impact on the economy and environment. Similarly, it is difficult to measure rigorously *ex-ante* and *ex-post* impacts, largely due to **limited information and scientific knowledge**. As climate and environment are being elevated in the budget, stronger **political will and support** could lead to a better prioritisation of the development of tools that can capture and forecast linkages between inputs (i.e., fiscal policy and financial resources deployed) and outputs (i.e., their environmental impacts).
- Thus, countries are striving to find a right **balance between a comprehensive** but not too **complex** exercise, and between the additional **administrative burden** and **value added**.

## 6. CONCLUSIONS

**While countries that are practicing green budgeting are rapidly developing their methods, the process is rarely formalised in the budget law and its integration in the budget cycle differs.**

Across the countries that were interviewed, most often the legal provisions underpinning green budgeting are not incorporated in the budget law and do not provide for applying green budgeting tools throughout all stages of the budget cycle. Nevertheless, such tools are commonly used during budget preparation, which is essential for the inclusion of green considerations in the budget. A high level of transparency on the green budgeting process is observed as countries publish the main related information along budget documents. Detailed analysis is generally, however, not published but line ministries make it available to the Ministry of Finance/Budget Directorate and parliament for budget deliberations.

**Countries have been adjusting their institutional arrangement to support the integration of green budgeting in the budget process.** This is done via creating a 'green' task-force or division in the Ministry of Finance, establishing independent climate councils or committees, and/or involving and enhancing the capacity of agencies with professional 'green' expertise. Countries are also involving and encouraging various third parties (e.g., think tanks, civil society bodies) in public debates on green budgeting.

**Countries face similar challenges to integrating green budgeting into the regular budget cycle and common areas for development have been identified.** Challenges refer to capacity constraints, the strict calendar of the budget process, limited information and scientific knowledge, and political will and support. As such, countries are striving to find a right balance between a comprehensive but not too complex exercise, and between the additional administrative burden and value added. Areas for development include: institutionalising the process to ensure its coherent and systematic implementation across ministries and agencies; integrating more systematically 'green' spending reviews and green considerations into performance budgeting; strengthening the link between *ex-ante* and *ex-post* assessments; and ensuring quality control.

**Green budgeting does not substitute for a strategy to reach environmental objectives.** Rather, green budgeting serves as a bridge between budget policy and climate and environmental policy, within the national strategy to reach the environmental objectives, and can help inform on the evolution of the strategy.

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## ANNEX I – THE BUDGET CYCLE AND GREEN BUDGETING, COUNTRY PRACTICES

Budget stage Country	Planning	Preparation (including negotiation on the draft budget in the government)	Approval	Execution	Oversight
<b>Denmark</b>	<p><i>Ex-ante</i> impact assessments required for new initiatives with impact on climate. MoF provides guidelines.</p> <p>Annual assessments required on the total impact of the climate policy, progress towards climate targets and plans to reach the target.</p>	<p>Climate programme prepared for and discussed in parallel with negotiations on the draft budget bill.</p> <p><i>Ex-ante</i> impact assessments for new policies with clear effect on climate.</p>	<p>Relevant green budgeting information provided to the parliament when the Minister for Climate presents the climate programme, while the Minister for Finance in parallel presents the draft budget.</p>	<p>Annual climate review mechanism / status report assessing progress of ongoing policies against a set of indicators.</p>	<p>Debate in the parliament with the Ministry of Climate on progress towards climate objectives.</p> <p>Council on Climate Change and the environmental economic committee evaluate climate policies and progress towards climate objectives.</p> <p>Spending reviews, on ad-hoc basis.</p>
<b>Finland</b>	<p>Regulation on budget preparation requires impact assessments for budget policy proposals on sustainable development. In addition, legislative proposals need to be assessed as regards their environmental impact, based on detailed guidelines and principles.</p>	<p>Information on sustainable development outlining the appropriations promoting climate and environmental objectives (i.e., chapter on sustainable development) sent to government for budget negotiations.</p> <p>Impact assessments for budget policy proposals on sustainable development.</p> <p>Environmental impact of law proposals.</p>	<p>Chapter on sustainable development provided to the parliament as part of the draft budget.</p>	<p>Progress towards the sustainable development goals.</p>	<p>Climate Change Panel evaluates climate policy and progress towards climate objectives.</p>

<p><b>France</b></p>	<p>Proposed new bill on the programming of public finances, requiring green budget tagging for proposed measure.</p>	<p>Green tagging (of past measures) and in some cases performance information.</p> <p>From 2023: green tagging of new proposed measures. Tagging discussed during negotiations.</p>	<p>'Green' information provided to the parliament with the draft budget (e.g., <i>ex-post</i> green tagging and tagging of new proposed measures).</p>	<p>The green budget report contains information on outturn data for past years.</p> <p>Performance information for some 'tagged' measures.</p>	<p>High Council for Climate evaluates policies and compliance with green commitments.</p> <p>The French Court of Audit is currently considering ways to review the green budgeting process.</p> <p><i>Ex-post</i> evaluations for some green strategies.</p>
<p><b>Ireland</b></p>	<p>Public Spending Code outlines how public funds are to be used, including requirements for <i>ex-ante</i> environmental impact assessment.</p> <p>Departments are required to measure and value the changes in emissions in economic appraisals for any proposal.</p> <p>Climate Act (2021) includes legally binding emissions reduction requirements and 5-year carbon budgets.</p>	<p>Green budget tagging for expenditure measures.</p> <p>Tax strategy group discussions, including climate implications.</p> <p>Green budget tagging of revenue and tax expenditure measures/tax outturn data.</p> <p><i>Ex-ante</i> appraisal of new proposals for inclusion in annual updates of the national climate action plan.</p>	<p>Relevant green budgeting information provided to the parliament with the draft budget. The budget publications are subject to Ministerial approval.</p>	<p>Budget documentation contains information on: (i) green tagging of (past) revenue and tax expenditure measures (ii) allocation of the carbon tax related revenue.</p>	<p>Department of Public Expenditure, National Development Plan and Reform reviews the use of revenue from carbon tax.</p> <p>Climate Change Advisory Council were consulted for feedback on the Department of Finance Tax Related Green Budgeting methodology.</p> <p>Ad-hoc spending reviews.</p>
<p><b>Sweden</b></p>	<p>Climate Act (2018) regulates how climate should be taken into account in the budgetary process, including the climate report attached to the budget bill.</p>	<p>List of proposed new measure with their 'green tag' and impact assessment when relevant.</p> <p>Report on development on the environmental quality objectives and assessment on reaching the overall</p>	<p>Relevant green budgeting information provided to the parliament with the draft budget.</p>	<p>Targeted system for measuring performance regarding the environmental objectives - imbedded in the general performance framework.</p>	<p>Climate Policy Council evaluating government overall 'green' policy and developments.</p> <p>Government agencies assessing some environment policies.</p>

		<p>environmental target. Separate climate report on progress and gap towards the climate targets.</p> <p>Impact assessment on major new policies and laws.</p>			
<b>EU Budget</b>	<p>The Interinstitutional Agreement on budgetary discipline for the 2021-2027 period establishes the horizontal budgetary targets for climate and biodiversity expenditures. This is further regulated in the relevant budgetary programmes with specific sectorial targets.</p>	<p>In accordance with each sectorial regulation, each budgetary programme will adopt a Work Programme establishing calls and financing modalities in line with its objective. The Work Programme undertakes the achievement of the programme's target, if any, and has to include a section describing how this is done, including the fulfilment of the "do no (significant) harm" principle.</p> <p>Every action financed by the EU budget (budgetary commitment) is tagged in the financial system for its climate relevance according to the methodology.</p>	<p>Relevant green budgeting information provided to the parliament with the draft budget.</p> <p>This includes: <i>ex-post</i> information on previous years budget execution based on the tagging and use of most updated information; <i>ex-ante</i> estimates based on work programmes and operational programmes.</p>	<p>The information stemming from the green budget tagging exercise is captured in a dashboard which presents the amounts actually spent per project and reported in the Draft Budget and Annual Management Performance Report.</p>	<p>European Parliament and European Council are the responsible authorities for the Draft Budget (N+1) and the Annual Discharge (N-1).</p> <p>The European Court of Auditor performs checks on the budget and prepares Special Reports when relevant.</p>

## ANNEX II – ACTORS INVOLVED IN GREEN BUDGETING ACROSS BUDGET CYCLE STAGES, COUNTRY PRACTICES

Budget stage Country	Planning	Preparation (including negotiation on the draft budget in the government)	Approval	Execution	Oversight
<b>Denmark</b>	Ministry of Finance provides guidelines and technical guidance on climate and environmental impact assessments.	Danish Energy Agency (lead) + relevant line ministries: impact assessments.  Ministry for Climate, Energy and Utilities (lead for climate programme) and collaborates with government departments + (for approval by) government committees, including Green Committee, Economic Committee, Coordination Committee.	Parliament	Danish Energy Agency: annual climate review mechanism / status report.	Parliament Ministry of Climate Danish Energy Agency Council on Climate Change Independent economic committee Line ministries (ad-hoc spending reviews)
<b>Finland</b>	Ministry of Finance and Ministry of Justice.	Line ministries + external experts: impact assessment.  MoF: chapter on sustainable development for the budget bill.  Inter-ministerial task-force for cross-sector climate policy integration and discussion.	Parliament	Government/MoF + Line ministries	Climate Change Panel
<b>France</b>	Inter-ministerial working group provides guidelines.	Inter-ministerial working group (MoF, Budget Directorate, Treasury and Economic Analysis, Tax Policy) and the Ministry for Ecological Transition (lead) + line ministries (consulted). From 2023: line ministries conducting green tagging for proposed new measures.  Directorate for Budget (supervision).	Parliament	Inter-ministerial working group: outturn data of past years green tagging.  Budget Directorate: performance indicators.	High Council for Climate  Line ministries (ad-hoc ex-post evaluations of policies)

<p><b>Ireland</b></p>	<p>Department of Public Expenditure, National Development Plan Delivery and Reform (DPENDR) provides guidelines on conducting green budget tagging.</p>	<p>DPENDR (lead) + line ministries: green tagging of expenditure measures.</p> <p>Department of Finance, through engagement with the Revenue Commissioners and the Central Statistics Office: green tagging of revenue measures and tax expenditures.</p> <p>Relevant Departments: <i>ex-ante</i> appraisal of new proposals.</p>	<p>Parliament</p>	<p>DPENDR + line ministries Department of Finance</p>	<p>DPENDR Climate Change Advisory Council Line ministries (spending reviews)</p>
<p><b>Sweden</b></p>	<p>The Ministry of Climate and Enterprise: guidelines on how to assess environmental impacts.</p>	<p>Relevant line ministries: tagging new measures + assess their environmental and climate impacts (Ministry of Climate and Enterprise assists with the impact assessment).</p> <p>Environmental Protection Agency (lead) + government agencies: reports on progress on environmental objectives, including a separate climate report.</p> <p>Committees of inquiry: for major law proposals.</p>	<p>Parliament</p>	<p>Environmental Protection Agency Government agencies MoF, Ministry of Climate and Enterprise + relevant line ministries</p>	<p>Climate Policy Council Government agencies</p>
<p><b>EU Budget</b></p>	<p>European Commission, the European Parliament and the Council. Directorate General for the Budget (DG Budget) provides guidelines.</p>	<p>DG Budget (guidelines, steering and negotiations) Directorates General for the Climate and the Environment (support on content). Each Directorate responsible for tagging its expenditures.</p>	<p>European Parliament and Council</p>	<p>DG Budget + DGs for the Climate and the Environment Directorates General (report on individual expenditure)</p>	<p>European Parliament (Budgetary Control Committee and Budget Committee) and Council (Budget Committee) The European Court of Auditors</p>



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