

OECD Multi-level Governance Studies

Aligning Regional and Local Budgets with Green Objectives

SUBNATIONAL GREEN BUDGETING PRACTICES
AND GUIDELINES



Aligning Regional and Local Budgets with Green Objectives

Policy Highlights

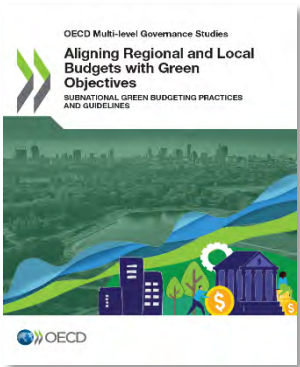
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	<p>The full book is accessible at:</p> <p>Aligning Regional and Local Budgets with Green Objectives: Subnational green budgeting practices and guidelines</p> <p>OECD Publishing, Paris (OECD, 2022^[1])</p> <p>https://doi.org/10.1787/93b4036f-en</p> <p>The Self-Assessment Tool is available on the Subnational Government Climate Finance Hub:</p> <p>https://www.oecd.org/regional/sngclimatefinancehub.htm</p>
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CONTACT

Isabelle Chatry II Head of Unit, Decentralisation, Subnational Finance and Infrastructure, Multi-level Governance and Regional Development Division II Isabelle.Chatry@oecd.org.

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Policy highlights

Definition and short history

Climate change, biodiversity loss, and widespread environmental degradation are live threats to our planet and societies. Addressing these threats requires unprecedented coordination of policy action among and within levels of government including through the sustained allocation of financial resources. Indeed, fiscal policy is one of the most powerful and effective tools policy makers have at their disposal for implementing coordinated policy action for climate action, with growing attention on the potential of budgeting approaches

Green budgeting is defined as “using the tools of budgetary policymaking to help achieve environmental and climate objectives” (OECD, 2020^[2]). It can be used by subnational governments to mainstream climate and environmental action within budgetary decisions and broader policy-making, and to monitor progress towards achieving environmental and climate goals, a central objective of the Paris Agreement (UNFCCC, 2015^[3]).

Green budgeting is a relatively new practice in many OECD countries, at both national and subnational levels. The establishment of the OECD Paris Collaborative on Green Budgeting (PGCB) in 2017 contributed to the surge in interest in the topic, which has been accentuated by the push for a post-pandemic green recovery and the accompanying need to identify and prioritise green investments (OECD, 2020^[2]). Countries and subnational governments within the OECD are experimenting with this practice at different rates and degrees, and with various methodologies. The publication “Aligning Regional and Local Budgets with Green Objectives” explores this in-depth through two case studies, one at a municipal level, with the City of Venice (Italy), and the other in a regional context, with the region of Brittany (France).

Case Study of the City of Venice, Italy

The City of Venice (Italy), with its very large territory and its unique ecosystem, is particularly concerned by global warming, sea-level rise, and other consequences of climate change. Most of these environmental challenges, however, exceed the municipality’s own capacity and resources, both human and financial. Addressing these challenges in a coordinated and cost-efficient manner thus requires detailed, costed, and long-term action plans, accompanied by sustained financial commitments.

Building on a first exercise of environmental budgeting initiated in 2006 (bilancio ambientale), the municipality has shown interest in developing a green budgeting practice that increases the links between climate and environmental science, physical indicators, and the budgetary decision-making process. Adopting a green budgeting approach can also support the city in aligning with regional and national climate initiatives, to enhance synergies and avoid creating additional human and financial resource burdens.



Subnational green budgeting is new but progressing

Green budgeting is particularly relevant for regional and local governments given the important role that they play in tackling climate change and catalysing the transition to a carbon-neutral economy. Subnational governments were responsible for 63% of climate-significant public expenditure and 69% climate-significant public investment, on average in respectively 33 and 32 OECD and EU countries in 2019 (OECD, 2022^[4]). They have jurisdiction over key policy areas relevant to the transition and all their spending, investment, and revenue raising decisions have an environmental and climate impact, be it positive, neutral, or negative. Subnational governments can use green budgeting to align their fiscal policies with their green objectives..

There is no one-size fits all approach to green budgeting. This is particularly true at the subnational level since budgeting and accounting systems differ substantially from one country to another and across levels of subnational governments. A stocktake of existing subnational green budgeting practices in OECD and EU countries found that green budgeting encompasses a variety of practices including carbon budgets, ecoBudgets, climate budgets, environmental and climate impact analyses, green budget tagging, and many more. Subnational green budgeting practices are for example in place in France (Bretagne, Occitanie, Grand-Est), Italy (Sardinia), Spain (Andalusia and Catalonia), and the United Kingdom (Scotland), at the regional level but also at the municipal level in Austria (Vienna), Norway (Oslo, Bergen), Sweden (Stockholm) and in several municipalities and associations of municipalities in France.

At the regional level, the stocktake found that there are a variety of green budgeting methodologies in use, including climate budget tagging, ecoBudget, carbon impact analyses, and environmental and climate impact analysis. In contrast, most municipalities, regardless of the country, were found to have based their green budgeting practice on one of two methods: the “climate budgetary assessment” (climate budget tagging) or the “climate budget approach” (a climate governance system that integrates emissions impact assessments of proposed and adopted expenditure items into decision-making processes).

Case Study of the Region of Brittany, France

The French region of Brittany began working on developing its own green budgeting process at the end of 2020. These efforts led to the development of a pilot climate budget tagging methodology that was tested ex-post on the region’s 2020 accounts. Publications and methodological support from the Institute for Climate Economics (I4CE), as well as Brittany’s participation in a green budgeting working group consisting of other interested French regions, facilitated this experimentation.

This pilot methodology is now being consolidated by the region for adoption in the 2023 draft budget. The exercise has highlighted key operational, methodological, political, and organisational challenges for implementing green budgeting at the regional level as well as the elements necessary to achieve success.



Opportunities and challenges of developing green budgeting for subnational governments

Green budgeting is a concrete, practical tool that regions and cities can use to integrate climate and environmental considerations throughout the budgetary process, from the initial drafting phase through to the budget vote and ex-post reporting. Fully incorporating environmental and climate concerns into the budgetary process complements the range of tools available to subnational governments for concrete climate action, such as regulatory action and environmental and land-use planning tools, and can unlock access to external sustainable finance such as green loans and bonds (G20-OECD, 2023^[5]). Green budgeting presents several opportunities for subnational governments, while also posing several challenges that need to be anticipated and addressed.



Green budgeting presents several **opportunities** for subnational governments, including:

- **Aligning** their expenditure, investment, and revenue raising decisions with environmental and climate objectives.
- **Fostering** a whole of government approach for policy-making.
- **Instilling** a science-based understanding of climate and environmental issues across the administration.
- **Improving** the evaluation of public policies.
- **Enhancing** the transparency and accountability of government climate action.
- **Prioritising** low-carbon and resilient investment and spending.
- **Identifying** funding and financing gaps for their green objectives.
- **Mobilising** additional sources of public and private finance to bridge financing gaps.



Four main categories of **challenges** in developing and implementing a green subnational budgeting practice:

- **Methodological challenges:** defining and measuring the needs for reaching their green objectives; adapting accounting and reporting tools to the specific budgeting contexts of subnational governments and ensure that the methodology can adapt to changing scientific evidence and climate challenges.
- **Resource challenges:** training of subnational government staff to carry out the exercise in a timely manner; allocating sufficient resources to upgrade existing information management systems in line with green budgeting needs.
- **Operational challenges:** establishing a dedicated organisational structure based on horizontal coordination amongst departments; involving stakeholders and communicating widely; implementing internal and external auditing processes.
- **Political challenges:** ensuring sustained, high-level political support for from both administrative and elected officials; reconciling green and social objectives; ensuring follow-up to identify trends and implement medium- and long-term strategies.



Green budgeting is not a silver bullet. It is most effective when used in combination with other government policy instruments and actions, such as regulatory policies, public procurement, or environmental and land-use planning tools.

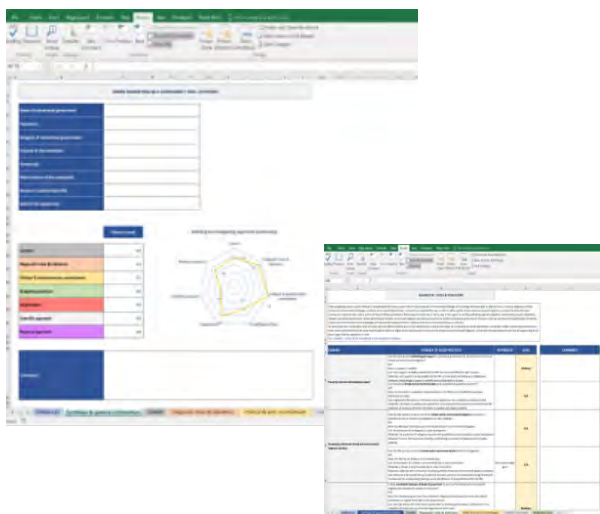
Subnational Green Budgeting Guidelines and Self-Assessment Tool

In order to help regions and cities overcome the challenges of developing and implementing a green budgeting approach, the OECD has developed a set of six key guidelines. Subnational governments of all sizes and types can use these guidelines to launch their own green budgeting practice or strengthen an existing one.

Six main guidelines for starting and developing a subnational green budgeting practice

- 1 **Conduct a diagnostic of local environmental and climate challenges** as a pre-requisite to launching a green budgeting practice
- 2 **Ensure strong, high-level involvement and support** from both the administrative and elected sides of government
- 3 **Ensure the practice relies on a robust, shared scientific basis** to facilitate public trust and ensure the practice can adapt to changing scientific evidence
- 4 **Adopt a step-wise approach to implementing green budgeting** in order to learn from previous steps and reinforce the alignment of the practice with local strategic priorities
- 5 **Integrate the green budgeting practice into existing public financial management procedures and tools** to help ensure the practice endures
- 6 **Include revenues within the scope of the green budgeting practice** to ensure the entire budget aligns with green objectives

The guidelines are complemented by a **self-assessment tool** that all regions and cities can use to identify their strengths and potential gaps for starting a green budgeting practice or improving an existing one.



*The self-assessment tool is available to download as an Excel file on **the Subnational Government Climate Finance Hub***

Guideline 1: Conduct a diagnostic of local environmental and climate challenges as a pre-requisite to launching a green budgeting practice

For action:

- ◇ Prepare a transversal territorial diagnosis that is consistent across government levels and in line with national and regional planning schemes.
- ◇ Use the diagnostic to define specific objectives for the territory as well as associated performance indicators.
- ◇ Include all stakeholders in the process of defining green objectives and performance indicators.

Recommendations for subnational governments

- Subnational governments should conduct a comprehensive territorial environment and climate diagnosis that includes relevant environment and climate performance indicators. The diagnosis should also measure and quantify the overall financial commitment needed to achieve the stated green objectives within a multi-year projection.
- To conduct their territorial diagnosis, subnational governments should pool efforts between levels of government to avoid duplications as well as make use of technical expertise and assistance within national government agencies and departments, especially territorial engineering assistance.
- All territorial stakeholders should be involved in developing the territorial diagnosis and the results of the diagnosis should be widely communicated to generate trust and buy-in from stakeholders on the actions to be achieved.

Recommendations for national governments and the international community

- National governments have a role to play in ensuring that legal, regulatory, and planning requirements that govern subnational climate and environmental actions are streamlined to reduce undue administrative burdens.
- Alongside international organisations and think tanks, national governments also have a key role to play in providing, or ensuring access to, methodological and technical expertise for subnational governments looking to adopt green budgeting.

The DK2020 Danish Municipalities Project

The DK2020 project was launched in 2019 with 20 Danish municipalities, to develop municipal climate action plans in line with the Paris Agreement objective of carbon-neutrality by 2050. In 2021, the initiative was extended to include nearly all Danish municipalities and all five Danish regions.

As part of the project, the municipalities and regions receive help from C40 Cities, CONCITO (a Danish climate think tank) and Realdania (an environment non-profit). C40 Cities provides the participating subnational governments with a climate action planning framework and CONCITO provides an analysis of existing practices among Danish municipalities. Realdania provides methodological and scientific support. The sharing of best practices and resources between municipalities and regions is a key aspect of the project.

Source: (Realdania, 2021^[6])



Guideline 2: Ensure strong, high-level involvement and support from both the administrative and elected sides of government

For action:

- ◇ Sustain green budgeting practices through strong political involvement and support.
- ◇ Mobilise a broad set of internal government stakeholders, whose buy-in to the project is key to its success, as well as the necessary financial resources thanks to high-level administrative management.

Recommendations for subnational governments

- Subnational governments should adopt at an early stage a political resolution to launch a green budgeting project that includes adequate reporting to the government's deliberative assembly on the project's progress.
- Transparent and consistent promotion of the green budgeting practice through high-level political communication should also take place to demonstrate the importance given to the project.
- The project's governance structure should include high-level administrative officials from a range of departments to support the transversal implementation of green budgeting and entrust the overall supervision of the project to the senior management of the region or municipality.

Recommendations for national governments and the international community

- Supranational bodies and national governments should play an active role in fostering green budgeting at the subnational level by promoting it as one of several tools available to the public sector for achieving green objectives, alongside environmental and land-use planning tools, fiscal policy, and regulatory policy.
- Supranational bodies and national governments should also play a role in organising trainings on green budgeting methodologies and practices for elected and administrative officials as well as in creating spaces for practitioners to convene and share best practices and knowledge on the topic.

Brittany's high-level political and administrative inclusion

The Region of Brittany's green budgeting practice was launched at the request of the Regional President and supported by the Regional Vice-President in charge of Finance, Human Resources, General Resources, and European and International Affairs.

The project was launched during a public event organised together with a public financial institution and a training institution specialised in the inclusion of scientific approach in decision processes. Representatives of municipal governments, key Breton stakeholders, and the OECD were involved as speakers during the event, which was an occasion to promote green budgeting, and present an inventory of existing French and international practices that the region could learn from. It was also a strategic opportunity to initiate a discussion on the methodology and organisational structure to set up by the region for a rapid start.

Following this symposium, a steering committee was set up within the regional administration to direct the project. The steering committee includes both administrative and political officials.

Source: (IHEST, 2021^[7])

Guideline 3: Ensure the practice relies on a robust, shared scientific basis to facilitate public trust and ensure the practice can adapt to changing scientific evidence

For action:

- ◇ Develop shared repositories of climate and environmental science and assessment methodologies.

Recommendations for subnational governments

- Local and regional governments should be highly transparent about the green budgeting approach undertaken and the methodologies used, to build public trust and ensure the practice remains robust.
- Moreover, subnational governments should organise frequent training for staff and officials on methodologies and taxonomies for integrating climate and environmental considerations into project and expenditure assessments, building bridges with local stakeholders working on these topics.

Recommendations for the international community

- International think tanks and supranational organisations should coordinate the development and alignment of green and transitional taxonomies for the public sector that cover all areas of subnational government intervention.

Recommendations for national governments

- National governments should disseminate green budgeting methodologies and tools to subnational governments within their jurisdiction and encourage the establishment of networks and communities of practice.
- To enhance the standardisation of subnational green budgeting practices, national governments should engage in and facilitate vertical co-operation with subnational governments to develop national green and transitional taxonomies for the public sector and align them with international standards.
- Going forward, national governments should encourage the financial sector to integrate green budgeting practices into their financing conditions for subnational governments, in particular to integrate green conditionality clauses into their financing products.

Use of the European taxonomy in the climate assessment methodology of I4CE budgets

In France, several subnational governments have based their budget climate assessments on a common methodology, developed by I4CE. This methodology is aligned with the European Taxonomy on Sustainable Activities.

For each policy domain (e.g. transport, waste management, etc.), the methodology's definition of what is harmful or favourable expenditure coincides with the technical criteria set out in the EU Taxonomy. The use of the taxonomy is helpful to avoid long technical debates and instead focus on operationalizing the methodology.

Source: (I4CE, 2020^[8])



Guideline 4: Adopt a stepwise approach to implementing green budgeting in order to learn from previous steps and reinforce the alignment of the practice with local strategic priorities.

For action:

- ◇ Widen the scope of green budgeting gradually in order to help get the process started.
- ◇ Align green budgeting with the government's other priority budgeting approaches (e.g. gender or social considerations) and green initiatives.

Recommendations for subnational governments

- Green budgeting practices should be implemented gradually, in order to take into consideration the priorities of the subnational government, to capitalise on foreign or national experiences, to put in place the necessary elements for the practice, to involve all stakeholders, and to adjust the government's broader budgetary policies to its climate and environmental objectives.
- Nevertheless, subnational governments should also plan an ambitious but realistic schedule to expand the scope of their green budgeting practice, that is adapted to local contexts, financial means, and the technical capacity of the subnational government. Expanding the scope of the project should include defining cross-priority budgeting expectations within the subnational government, in particular to reconcile social and green objectives.

Recommendations for national governments

- National governments should provide a legal basis for the consideration of social, gender and environmental issues in budgetary processes by including such requirements in the legal or regulatory corpus applicable to subnational governments.

Clermont-Ferrand's socio-environmental rating

The municipality of Clermont-Ferrand (France) developed its last multiannual investment program (2021 – 2030) using an evaluation tool that measures both the environment and social impact of proposed investments. While the environmental rating component uses a decision tree method originally designed by I4CE, the social tool estimates the proposed project's contribution to reducing social inequalities, promoting social inclusion and social mix, territorial balance, and user and citizen involvement. The results of these two ratings are consolidated and used during budgetary discussions to help officials to make informed decisions.

This approach helped elected officials to reflect more on the cross-cutting nature of environmental and social issues and to make better-informed investment decisions that contribute to achieving a variety of municipal goals.

Source: (Ville de Clermont-Ferrand, 2021^[9])



Guideline 5: Integrate the green budgeting practice into existing public financial management procedures and tools to help ensure the practice endures.

For action:

- ◇ Adjust existing budget procedures and tools to integrate the green budgeting approach.
- ◇ Integrate green budgeting into internal and external audit procedures.

Recommendations for subnational governments

- At the subnational level, internal procedures should be adjusted to integrate green budgeting at all stages of the budgetary process with, if necessary, the implementation of new governance mechanisms to involve all stakeholders in the process. This includes adapting IT and information management systems to be able to collect environmental and climate financial and extra-financial data.
- To ensure the robustness of the procedures and to reassure stakeholders of the quality of the work, subnational governments should carry out internal audits of the process as well as solicit external audits on a regular basis.

Recommendations for national governments

- Budgetary procedures and tools need to be adapted to incorporate the green budgeting dimension. National governments can help by adapting the granularity of public accounting requirements or adjusting the format of budgets to allow for better identification and presentation of the climate and environmental impact of expenditures and revenues

The inclusion of green budgeting in the “Cit’ergie” label criteria

The Cit’ergie label (climate - air - energy label) is the French version of the European Energy Award (EEA®). It validates the policies implemented by municipalities and inter-municipal co-operation bodies to support the green transition and energy efficiency.

This label helps to improve transversal mobilisation within an administration, to evaluate the results obtained and to set up new climate and environmental actions with the help of ADEME experts (the French public agency dedicated to assisting governments in the implementation of environment, energy and sustainable development policies).

The label is also an asset for accessing European subsidies. In 2021, ADEME incorporated I4CE’s climate budgetary assessment (a green budgeting methodology) into their Cit’ergie label criteria, thereby encouraging more municipalities to adopt green budgeting. The criteria specifies that the results of climate budgetary assessment should be presented to elected officials prior to budget discussions.

Source: (ADEME, 2021^[10])

Guideline 6: Include revenues within the scope of the green budgeting practice to ensure the entire budget aligns with green objectives

For action:

- ◇ Ensure sufficient permanent funding and the mobilisation of all available green revenue sources for climate and environmental action.
- ◇ Analyse the environmental and climate impact of revenue sources.

Recommendations for subnational governments

- Although subnational governments often have less revenue autonomy than spending autonomy, their green budgeting practices, to be as comprehensive as possible, should also cover the revenue side of their budgets.
- Subnational governments should measure the resources needed to cover their short, medium, and long-term green current and capital expenditure needs, and to ensure that all available funds, both traditional and innovative, are mobilised.
- Subnational governments should also make use of green budgeting approaches to ensure that the structure of their revenues is aligned with their climate and environmental strategies, by analysing the overall environmental and climate impact of their funding choices.

Recommendations for national governments and the international community

- Supranational organisations and national governments should facilitate subnational government access to financing and funding opportunities, for instance by gathering available financing and funding opportunities and sources of technical assistance into a centralised online portal, as well as to financial engineering support and technical expertise.
- They should also provide subnational governments with access to training and capacity building in order to be able to include revenues within their broader green budgeting practices.

Andalusia's Sustainable Finance Framework

To boost its climate strategy, the Autonomous Community of Andalusia (Spain) has developed a Sustainable Finance Framework to define the criteria to issue sustainable bonds (including green bonds) to finance social and environmental projects. The Framework follows existing green, social and sustainable bond labels and includes rules on the use of proceeds, on evaluating and selection projects, and on the management of proceeds and reporting. It is also subject to external review.

In parallel, the Autonomous Community of Andalusia has developed a green budget tagging methodology to identify budget programmes to be funded by the proceeds of its sustainable bond issuances. The methodology allows the region to measure the amount of expenditure within each budget programme with a positive climate, environment or social impact and therefore the expenditure items that can be funded using sustainable bonds.

More recently, the region has sought to align its regional tax framework with its environmental and climate strategies, in the areas of greenhouse gas emissions and air pollution, water usage and pollution, and circular economy and waste management.

Source: (Junta de Andalucía, 2021^[11]); (OECD, 2023^[12])

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