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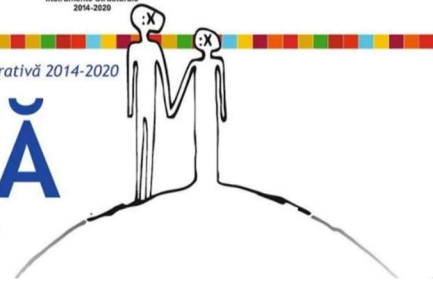


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ROMÂNIA DURABILĂ

Dezvoltarea cadrului strategic și instituțional pentru implementarea
Strategiei Naționale pentru Dezvoltarea Durabilă a României 2030



Administrație publică pentru dezvoltare durabilă

- Program de studii postuniversitare de formare și dezvoltare profesională continuă, înregistrat în Registrul Național al Programelor Postuniversitare cu nr. 338.
- Ocupația/ Grupa de bază din COR pentru care se organizează programul postuniversitar: "expert dezvoltare durabilă", cod COR 242232.
- Organizator: Academia de Studii Economice din București

Bugetare verde, bugetarea obiectivelor de dezvoltare durabilă

Modul 2. Dimensiunea economică a dezvoltării durabile

- Tema 4. Măsurarea dezvoltării durabile.

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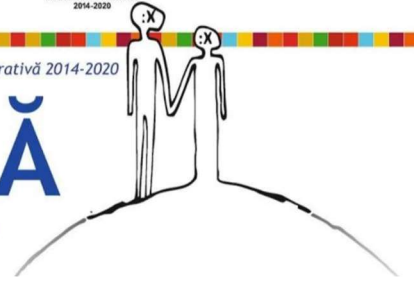
Material realizat în iunie 2022 de lector Chloé Boutron pentru uzul participanților la programul de studii postuniversitare de formare și dezvoltare profesională continuă „Administrație publică pentru dezvoltare durabilă”.

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GREEN BUDGETING – concepts, methodology, real world examples

Definitions and concept:

Green budgeting consists, widely, of using budgetary tools to achieve climate and other environmental goals (OECD, nd). Green budgeting has generated increased interest in recent years with actors such as the UNDP, the OECD, the World Bank, and the Coalition of Finance Ministries for Climate Action (Principle 4) advocating for it. In 2017, the OECD Paris

Why focus on public budget for environmental action?

Public budgets amount to 1/4th to 1/2 of GDP for most countries. They are the main drivers of public action, and therefore a key locus of public action against climate change and environmental degradation. Moreover, the fight against climate change and environmental degradation requires important investments or redirection of existing financial flows. This can be achieved through using public budgets as tools to mobilize investments and to identify flows to be reoriented.

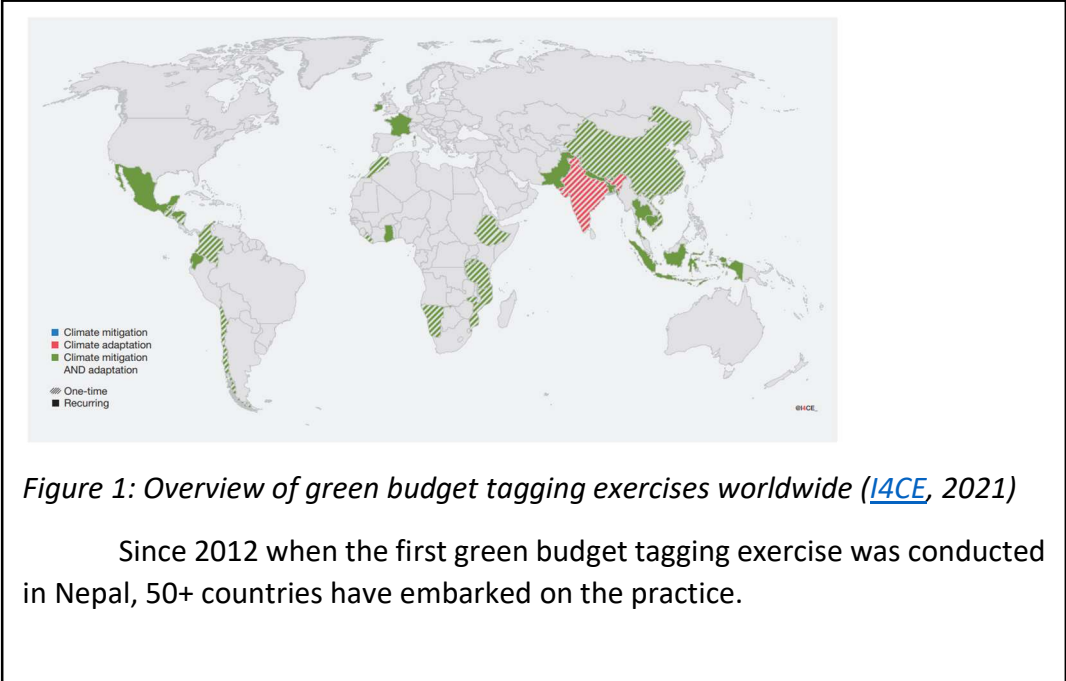
Collaborative on Green Budgeting was launched with the mission to further support green budgeting among member countries and worldwide.

Green budgeting includes a range of practices from detailing framework documents that consider climate and environmental goals for budget decision makers, to evaluating the climate and environmental impacts of budgetary and fiscal policies with the aim of better allocating resources (OECD, nd). **Two notable practices** that compose green budgeting are **environmental or climate budget tagging (CBT or EBT)**, and **environmental impact assessment** of budget items. The former consists of scanning all items recorded in public budgets and systematically identifying whether they contribute or impede achieving

environmental and climate objectives. The latter consists of precisely quantifying the environmental or climate impacts of selected budget items through environmental impact accounting and modeling.

Environmental Budget Tagging or Climate Budget Tagging as starting point for holistic green budgeting:

Also known as Green Budget Tagging, this practice consists as mentioned above of **scanning public budgets to identify items that contribute to or impede achieving national environmental targets**, and more generally that are favorable or harmful to the environment or the climate. Increasingly popular (see figure 1), these exercises vary in **scope, coverage, and recurrence** across countries.



Scope refers to the **environmental objectives considered** while scanning budgets. These are usually climate change mitigation, adaptation, and can extend to variations of the 4 other environmental objectives of the EU Taxonomy Regulation: sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems. **Coverage** refers to the **budgetary items analyzed** by the exercise: public expenditure, tax revenue, tax expenditure, and the **budgets considered**: the national budget, budgets of public agencies, budgets of state-owned enterprises.¹ Finally, **recurrence** refers to whether a tagging exercise is **undertaken once, several times, or annually** as would be ideal for thorough incorporation of tagging results in budgetary decision making.

¹ Green budget tagging can also be conducted on regional and local authorities' budgets.

Budget tagging for other policy objectives:

Before, in addition, or instead of embarking in green budget tagging, several countries have conducted budget tagging for other policy issues. For example, Bangladesh has developed and undertaken a gender budget tagging since 2006 with the aim of advancing the condition of women in the country. Botswanan has been collaborating with the UNDP and UNEP to scan its budget with a poverty and environmental lens. SDG budget tagging has been put forward by the UNDP since around 2015 and has been implemented by the Dominican Republic, Peru, and several other countries. More information on these budget tagging exercises can be found in the first sections of the World Bank's [Climate Change Budget Tagging](#) report (2021).

Undertaking a large scope **green budget tagging exercise** has numerous advantages **to advance green budgeting**. Indeed, it allows to better **understand the current level of public action** on climate change or other environmental dimension, and in the meantime allows to **identify missing funds, incentives, or other policy actions**. The results of a green budget tagging exercise provide extensive **evidence** regarding the above and can, if well disseminated, serve to **foster a national debate around climate and environmental public action**. At best, results of green budget tagging are **discussed annually by parliaments** or other deciding entity **ahead of voting the next year's budget law**. This favors the reconsideration of budgets allocated to environmentally harmful and favorable measures. At an advanced level, **methodologies for green budget tagging can be enhanced to incorporate rigorous environmental impact assessment** for measures, thereby providing further evidence and elements to orient public funds away from harmful measures and towards environmentally meaningful ones.

Developing a national methodology for green budget tagging:

The **first steps** to conducting a green budget tagging exercise are to choose its **scope and coverage** and to understand the precise **definition underlying chosen environmental dimensions**. Developing a rigorous, science-based, and **comprehensive tagging methodology** then becomes the bulk of the work. The methodology should **draw upon national resources** including policies, laws, framework documents, and targets for climate change. It can therefore **not easily be transferred from one country to another**. International experiences, frameworks such as the [EU Green Budgeting Reference Framework](#) (GBRF), and taxonomies can nonetheless serve as methodological basis (see boxes on pages 3 and 4 for examples).

The technical process of **methodology development** can be conducted through **assessing a past or current budget**. It generally follows the steps below, focusing on only one environmental dimension at a time (climate change mitigation here, for illustrative purposes):

1: For all budget items, **identify** whether they are **related (positively or negatively) to the environmental dimension** (e.g., do items contribute to increasing or decreasing the concentration of greenhouse gases in the atmosphere?). It is likely that the **identification will not be straightforward for many items**. In this case, an option is to **look further into scientific reports, academic literature**, or other sources of robust information. An **alternative is to mark** the item as having an **unclear** effect on the environmental dimension.

2: For all items marked as impacting the environmental dimension, or marked as unclear, **understand whether the effect is positive, negative, or unclear**. Associate colors to each: traditionally **green for positive, brown or red for negative, grey for unclear**. Additionally, seek to **form categories** (or bundles) of budget **items that have roughly similar effects** on the environmental dimension of interest. Categories can be derived from economic sectors but need to be refined by environmental impact (e.g., instead of “transportation”, three categories can be created: private transportation, green public transportation, fossil fuel powered public transportation).

3: **Considering national documents on climate change, refine the colors** attributed to **categories** of items. Mark a **category as green if the underlying actions are compatible with the national targets**. Mark a **category as light green if the underlying actions have a relatively positive impact** on the environmental dimension **but are not enough to meet national targets**. Brown or red categories can also be refined in a similar way. It is **recommended** to choose **specific colors for categories** of which’s impacts are **unclear and require more work**, categories of which’s impacts are **mixed or ambiguous** (i.e., dependent on complementary

EU Taxonomy Regulation:

The [EU Taxonomy Regulation](#) of sustainable activities lists activities that are considered as environmentally sustainable within the European Union. This list is the basis of mandatory disclosures for companies and investors.

Entered into force in 2020 (December), it lists activities that make substantial, positive contributions to one or more of six environmental objectives according to robust Technical Screening Criteria (TSCs) detailed in [Delegated Acts](#): climate change mitigation, climate change adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, protection and restoration of biodiversity and ecosystems.

In addition to making a substantial contribution, activities need to [Do No Significant Harm](#) (DNSH) to any of the other environmental objectives to qualify. That is, activities’ effects on other objectives need to be neutral.

Finally, activities need to meet minimum social safeguards to qualify. That is, they need to respect human and labor rights.

Details of the above criteria are listed in the [EU Taxonomy Compass](#).

measures or activities), and categories that have a **neutral or no effect** on the environmental dimension.

The **categories and associated colors** created according to the above process will constitute the **main elements** of the national green budget tagging **methodology**. **Following years' budgets** can then be **tagged by attributing budget** items to a category. It is important to note that **categories and colors need to be updated following new national resources on climate change**, and **changes in information available** about specific actions and their impact on environmental dimensions.

Implementing green budget tagging:

Conducting green budget tagging requires **assigning specific roles and responsibilities** for green budget tagging methodological choices and development, and for the application of the methodology on future budgets. Responsibilities can be given to an **ad-hoc task force**, ideally involving members of **different relevant ministries and institutions**, or can be given to a **permanent central structure**.

Throughout the methodological development and application to following years' budgets, **coordination with line ministries** and other public entities or members of the civil society is key. Indeed, they will convey relevant, up to date information on the impact of items. Additionally, it is important that the **methodology and results of green budget tagging are reviewed independently** to ensure their **quality and robustness**. Such assessments can be conducted by public institutions such as the General Inspectorate or Finance, Court of Auditors, High Council for Climate Change, or other similar institution. Civil society

Useful resources (non-exhaustive):

- [EC DG ECFIN lists of green and brown budgetary items.](#)
- [OECD DAC Rio Markers System.](#)
- [EU climate tracking methodology in Annex VI of the RRF Regulation.](#)
- [Classification of Environmental Protection Activities \(CEPA\).](#)
- [Classification of Resource Management Activities \(CReMA\).](#)
- [CBI Climate Bonds Taxonomy.](#)
- [IADB Climate Change Public Budget Tagging report.](#)
- [Green Budgeting in OECD Countries report.](#)

organizations and academics will also be able to provide insight on the quality and robustness of the methodology and exercise.

For **green budget tagging to foster the greening of the public budget**, and green budgeting, its **results need to be presented to relevant decision-makers** (budget directorate, parliament...) **at times in the budget cycle that will be most relevant**. The most relevant timeframe for green budget tagging results to be presented **depends on the specific**

objectives pursued by the exercise. At the **planning of the budget** stage, green budget tagging results will **inform debates and decision making**. At the **budget approval** stage, presenting green budget tagging results will **increase transparency** on public action on climate change. During the **implementation of the budget**, green budget tagging results will help **increase the consistency of public action**. In the **following year**, green budget tagging results can serve to **report to international agencies and international finance providers**.

Elements to keep in mind:

Green budget tagging can be a lengthy and somewhat resource-intensive exercise. Elements to consider are the **human resources available** to develop the methodology and conduct the exercise on following budgets, **IT needs** (excel, SAP..), and **general time constraints**.

The **availability of data and information** may also come as a challenge. Conducting a green budget tagging exercise **may incentive public administrations to collect more granular data** on their budgetary items and underlying actions.

Finally, **political will** to conduct a green budget tagging exercise may evolve. Seeing green budget tagging enshrined in **law or framework documents** has helped several countries overcome this possible issue.