

Paris Collaborative on Green Budgeting

2nd Green Budgeting Experts Meeting

Summary Note: 29 April 2019





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Contact:

Juliane JANSEN, Tel. +33 1 85 55 45 91 – Email: juliane.jansen@oecd.org

The second meeting of the Green Budgeting Expert Group under the auspices of the Paris Collaborative on Green Budgeting (PCGB), took place at the OECD in Paris on 29 April 2019. It highlighted the increasing relevance of this initiative in supporting countries in improving the alignment of public finances with environmental objectives. The number and diversity of participants at the meeting showed the value of the network as a platform to exchange best practices, facilitate peer learning, and to develop new approaches. This in turn can inform sound policies, commonly agreed and trusted methodologies, and strong collective action to national and global environmental challenges.

The meeting gathered 53 participants: 38 country delegates from 20 countries, representing Budget and Tax Departments at the Ministry of Finance, Ministries of Environment, Sustainable Development and Planning, Parliamentary Budget Offices; as well as experts, academia, the World Wildlife Fund (WWF), Bank of England, and Local Governments for Sustainability (ICLEI). At the OECD, the work of the Paris Collaborative is led by the OECD Secretary General Angel Gurría, the Chief of Staff and Sherpa to the G20, Gabriela Ramos, and undertaken by four Directorates, the Public Governance Directorate, the Environment Directorate, the Centre for Tax Policy and Administration and the Centre for Entrepreneurship, SMEs, Regions and Cities.

The meeting was organised in five sessions: introduction on scope and objectives of the green budgeting project (Session 1); the analytical means available to estimate the environmental impacts of public action (Session 2); how to identify and measure significant (favourable as well as harmful) budget measures as a first step towards the alignment of public finances with environmental objectives (Session 3); the importance of recognising potentially disruptive factors of climate change for fiscal sustainability (Session 4). Finally, Session 5 discussed the use of these building blocks to provide an analytical framing for green budgeting and how they can be used to reinforce the implementation of green budgeting in a pragmatic way.

The overall key messages emerging from the meeting include:

- There is growing recognition among OECD members and partner countries of the important role of domestic budgetary and fiscal policy in resourcing and implementing environmental goals. Green budgeting helps countries to comply with national commitments and international obligations by having a central mechanism to co-ordinate the progress achieved from publicly funded initiatives, identify potentially environmentally harmful measures, and increase the coherence of how initiatives are framed in a country's budget process.
- There are many emerging practices across OECD countries that inform domestic efforts to assess the effectiveness and coherence of budgets against environmental goals. Examples discussed at the meeting include:
 - Systematic assessment of tax measures and use of evaluation results in the decision-making process (e.g. Netherlands);
 - Involvement of Parliament to monitor the budget's alignment with the country's climate commitments (e.g. Scotland);
 - Ex-post cost-benefit analysis for environmental policies (e.g. France);
 - Stocktaking of public expenditure in support of environmental objectives (e.g. Ireland and EU);
 - Categorisation of potentially harmful budget support, in particular fossil fuel subsidies (e.g. G20 peer review process);
 - Qualitative presentation of budgetary impacts of climate change in long-term fiscal sustainability analysis (e.g. Switzerland);
 - Development of a *jaune budgetaire* to provide an overview of climate related budget measures (e.g. France);
 - Multi-stakeholder approach to the development of a climate strategy (e.g. Netherlands).
 - Experiences with green budgeting at city level (e.g. ICLEI), that can provide valuable input when developing green budgeting strategies at national level.
- The Paris Collaborative is a vehicle that supports peer learning and exchange on these emerging practices and remaining challenges; to enhance research in many of these approaches; and channel the knowledge for targeted assistance and collective action.

- The discussions throughout the meeting helped to identify six **Key Orientations** that can guide countries' approaches to green budgeting.

Key Orientations

- **Evidence** on environmental impacts of budgetary or fiscal policies is essential to increase the understanding of what will be achieved. Key tools to generate this evidence included evaluating the impact of public action; cost-benefit analysis; identification and stocktaking of relevant favourable and harmful budget measures; and computing the budget implications from disruptive and transformative factors of climate change.
- Bringing the evidence into the budget process supports the **coherence** of national and international environmental commitments. To do so in a systematic way, governments should introduce central mechanisms that support feedback processes and steer budget decisions. These may include a comprehensive ex-ante decision-making framework for budget proposals, as well as ex-post review and evaluation mechanisms.
- The pursuit of environmental objectives needs to be undertaken within a budget framework that underpins **fiscal discipline and fiscal sustainability**. This demands multi-annual, top-down budgetary frameworks and partner institutions - such as independent fiscal institutions and supreme audit institutions - that are able to support a government's fiscal policy objectives.
- The annual and multi-annual budgeting processes are the primary channel for prioritising and resourcing programmes across all public policy domains. **Integrating** an environmental perspective into existing budget processes, including evidence-generation, feedback, reporting and decision-making processes, supports environmental mainstreaming across policy areas along the budget cycle. An integrated approach comprises fiscal measures, including the tax, subsidies, expenditures and regulation. Such an integrated approach assists governments to report on Nationally Determined Contributions (NDCs) under the Paris Agreement and Agenda 2030 Voluntary National Reviews (VNR).
- A comprehensive presentation of relevant information and analysis of the budget's overall impact on environmental targets in the budget documentation increases the **transparency** of the progress made towards the government's commitment to climate and other environmental goals, and supports communication on environmental policies and actions implemented via the budget.
- Ministries of Finance perform a key role alongside other ministries on how a country undertakes its environmental commitments. This role requires **close collaboration** across ministries, particularly of Budget and Tax Offices, Ministries of Environment and/or Climate, and statistical offices as reflected in the composition of the PCGB. Effective collaboration is based on the exchange of data, capacities, and expertise for strategic planning, policy formulation, data collection, monitoring and evaluation within the government, across sectors and internationally.

Participants:



Session 1: Welcome and introduction

The first session provided an introduction to the meeting and its objectives. The speakers stressed that green budgeting constitutes a crucial step towards reaching a country's environmental commitments, including those of the Paris Agreement, Aichi Biodiversity Targets and the environment-related UN Sustainable Development Goals, by using the tools of budgetary governance to align revenue and expenditure processes with environmental goals.

Speakers

- **Ms. Irène Hors**, Deputy Director of the OECD Governance Directorate
- **Keynote: Mr. Baptiste Perrissin Fabert**, Chief of Staff of Secretary of State Brune Poirson, at Ministry of Ecological and Inclusive Transition in France

Key messages

- A range of international environmental commitments are now in place and most governments around the world are committed to pursuing co-ordinated action. This is, for example, reflected by the environmentally related Sustainable Development Goals; the Paris Agreement, the Aichi Biodiversity Targets, the UN Convention to Combat Desertification, and the related G7 priorities on environment, including inclusive ecological transition, international action, tangible solutions and finance on biodiversity and climate. Launched at the One Planet Summit in December 2017 as part of the Summit's 12 commitments, the Paris Collaborative on Green Budgeting (PCGB) provides a platform for action to make the Paris Agreement and other commitments irreversible.
- Co-operative action – across countries and sectors – is essential to meet environmental and climate objectives. The PCGB brings together work streams on environmental policy and climate change, budgeting and tax policy including carbon pricing, green accounting and inclusive sustainable growth from OECD and partner countries, academia and civil society.
- Green Budgeting is a promising tool to support countries in resourcing and implementing climate and other environmental goals, by contributing to an informed, evidence-based debate and discussion on the impact of budgetary choices on the long-term objectives for climate and environment in general, increasing effective monitoring and accountability.
- There is a demand by parliamentarians, citizens and NGOs for a clear communication tool of what climate policy and action is undertaken. France has started to develop a document to be published with the annual budget (“jaune budgetaire”) that provides an overview of relevant policies and highlights their alignment with France's climate objectives.
- There is a growing interest for SDG budgeting. While green budgeting may not be suitable to help progress on all 17 SDGs, it is way to guide countries towards achieving the environmental targets. The PCGB can furthermore support governments as a means to give coherence to public policies and by developing new methodologies that can be used as a compass for the different policies.
- Cities and regions are significant contributors to spending and investment related to climate mitigation and adaptation. Based on preliminary estimates cities and regions were responsible for 64% of investment in selected sectors having a direct implication for climate change over the period 2000-2016 in 30 OECD countries. Practical experiences and innovations at city level can provide valuable input when developing green budgeting strategies at national level.
- Under the PCGB, the OECD secretariat has started to collect good practices and data, and to develop guidance and specific tools to help countries optimise national revenue-raising and expenditure allocations. The outcomes of the meeting will directly feed into the ongoing and future work of the PCGB.

Session 2: Calculating the environmental impacts of public action

The second session reviewed recent developments and approaches to assessing the impact of public budget measures and policies on the environment, in order to provide evidence that can be effectively used in the budget process. The session drew on OECD work on cost-benefit analysis and impact assessments, presented the Dutch approach to evaluation of climate policy, and highlighted the importance of evidence for Parliamentary scrutiny presenting the case of Scotland.

Speakers and topics:

- **Mr. Nils Axel Braathen**, Environmental Performance and Information Division, OECD: *Cost-Benefit Analysis and the Environment: Further Developments and Policy Uses*
- **Mr. Jonas Teusch**, Economist, Tax and the Environment, Centre for Tax Policy and Administration: *Ex-post cost-benefit analysis of environmentally related tax policies*
- **Ms. Monique Fasol**, Head of Tax Policy Division, Ministry of Finance, the Netherlands: *Evaluation of Climate Policy in the Netherlands*
- **Mr. Iain Thom**, Researcher, Scottish Parliament Information Centre: *New budget process and climate scrutiny tools in Scotland*

Key messages:

- Consensus on methodologies across departments within a government but also across countries helps to add transparency and coherence to the evaluation of results, and allows for international comparison. Under the PCGB, the OECD secretariat could collect methodologies used by countries to assess the environmental impact of public action and public spending to help surface emerging practices and help countries with the challenges to ensure a common procedure.
- Cost-benefit analysis (CBA) is a useful tool to highlight the economic and environmental impacts of policies, whether they have the deliberate aim of environmental improvement or affect the natural environment as an indirect consequence. The OECD presented its recent work on CBA, discussing parameters and the theoretical underpinnings for discount rates, valuation of ecosystem services and biodiversity and the social cost of carbon.
- The use of cost-benefit analysis, while relatively frequent for ex-ante assessment of policies, is rare for ex-post evaluation. The OECD presentation of an example of an ex-post analysis of environmentally related tax policies showed that CBA can provide decision makers with more complete assessments than simple programme evaluation. While the discussion highlighted the importance of thorough assessment of costs and benefits, participants underlined that it was a complex and time-consuming process. Screening of measures and high-level evaluation by indicators could be a more feasible approach in some cases.
- A key challenge is the systematic assessment and use of results in decision-making processes. In the Netherlands, climate policy measures are evaluated at three different stages, ex-ante; during its operation; and after the termination of a measure. Results are publically available and presented to the Parliament. More recently, new measures are introduced with a sunset clause that ends a policy unless evaluation is undertaken.
- The session stressed the role of evidence and evaluations for effective scrutiny by Parliament. The presentation of the Scottish Parliament Information Centre and the discussion that followed stressed that timing is essential for Parliaments to assess policy decisions. For example, if monitoring reports are provided too late in the budget process, evaluations will be presented after the decision is made.

Session 3: Applying a green lens: stocktaking of relevant budgets measures in the light of environmental objectives.

The session presented a range of approaches to assess the budget across sectors, identifying relevant measures for the achievement of environmental objectives. Areas discussed included tracking of environmentally favourable expenditure and potentially harmful budget support, including fossil fuel subsidies. Taken together, these practices provide a concrete basis for governments to assess ex-ante the effectiveness of the budget in delivering environmental goals.

Speakers and topics:

- **Ms. Katia Karousakis**, Biodiversity Team Leader, Environment Directorate, OECD: *Developing guidance to identify and assess harmful subsidies to biodiversity at national level*
- **Ms. Assia Elgouacem**, Economist, Fossil Fuel Subsidies, Environmental Performance and Information Division, OECD: *OECD's work on government support for fossil fuels*
- **Ms. Laura Kevany**, Administrative Officer, Climate Change Unit, Department of Public Expenditure and Reform, Ireland: *The Implementation of Green Budgeting in Ireland*
- **Mr. Cornelius Rhein**, Policy Officer, Directorate-General for Climate Action, European Commission: *Climate mainstreaming in the EU: Multiannual Financial Framework 2021-2027*
- *Working lunch: Mr. Florens Flues*, Economist, Tax Policy and Statistics Division, Centre for Tax Policy and Administration, OECD: *The use of revenues from carbon pricing*

Key messages:

- A comprehensive stock-take of favourable and harmful budget measures and their corresponding amounts provides a starting point for governments to assess the environmental alignment of the budget. Some countries identify resources dedicated to address environmental goals. Ireland started to identify all climate-related expenditure in the 2019 budget. The EU aims for a 25% goal of EU expenditure contributing to climate objectives for their multiannual Financial Framework for 2021-2027.
- While spending targets can send important political messages and help accelerate the needed shift of financial flows, it does not determine whether Government spending is effective. In particular, ex-ante assessments are important to ensure that the right decisions are made. In Ireland, planned next steps include the refinement of the assessment by introducing high-level impact analysis of climate expenditure and the assessment of potential direct negative climate/environmental impacts of existing Government spending.
- To identify and track spending, it needs to be determined and agreed across government what constitutes environmentally related expenditure. To date, there is no internationally accepted definition of green expenditures. It was noted that the PCGB could serve as a good platform for agreeing on a definition and classifications of environmentally favourable (“green”) or harmful (“brown”) expenditure. Such a definition would furthermore facilitate reporting for investors in Sovereign Green Bonds.
- On harmful measures, much information is already available. The OECD inventory of fossil fuel subsidies measures government support by direct transfers and tax expenditures. Also, some countries catalogue potentially harmful budget support (Italy and Germany). The OECD is currently developing guidance to identify and assess harmful subsidies to biodiversity. As tax codes are not revised as often as budget allocations, scrutiny of tax measures constitutes an important part of the work of the PCGB.
- The use of revenues from carbon pricing is an important mechanism to build public consensus on climate measures. Revenue from carbon pricing can enable broad tax reform, support poor households with targeted transfers, be redistributed to all households, increase investment, or pay back public debt. Priorities may vary across countries, but in any case, consideration of the full picture (environmental, economic and social outcomes) is important for building public support and enabling smooth implementation.

Session 4: Long-term fiscal sustainability: disruptive factors and possible budgetary responses.

The session launched the debate on how governments can better assess the budget implications from disruptive and transformative factors arising from mitigation of climate change, improve the assessment and management of fiscal risks and adopt timely policy responses to prepare their budgets to long-term fiscal sustainability in the context of climate change and other environmental challenges.

Speakers and topics:

- **Dr. Sandra Batten**, Senior Economist – Structural Economic Analysis Division, Bank of England: *Climate change, economic risks and fiscal sustainability*
- **Dr. Martin Baur**, Head, Economic Analysis and Policy Advice, Federal Finance Administration, Federal Department of Finance, Switzerland: *Long-term Fiscal Sustainability Reporting in Switzerland*
- **Ms. Luisa Dressler**, Economist, Tax and the Environmental, Centre for Tax Policy and Administration: *Tax revenue implications of decarbonising road transport*

Key messages:

- For assessing the fiscal sustainability of government budgets in the long run, environmental and climate-related factors will become more important. While the publication of long-term fiscal sustainability reports has increased in recent years, few countries consider climate change risk in their fiscal sustainability assessments. In Switzerland, the budgetary impact of climate change was presented as a qualitative assessment of possible impacts in the long-term sustainability report 2016.
- Effects of climate change on the government budget can manifest directly (mainly on the expenditure side) or indirectly through damage to the economy in both short and long run. Research by the Bank of England characterises two groups of disruptions: physical and transition risks. The physical risks arise from climate-related hazards, such as gradual global warming and extreme weather events. Extreme climate events may divert resources from public services to emergency and reconstruction; global warming requires adaptation expenditure, such as cooling systems and flood barriers. Transition risks consist of technology risk (e.g. new clean technology), market and reputation risk (e.g. change in consumer tastes), litigation risk (carbon-intensive producers may be sued by courts to pay for the damage their emissions cause) and policy risk (unexpected increase in the stringency of climate policies). Transition risks can imply a sudden devaluation of carbon-intensive assets, with repercussions on the entire economy, such as the disruption of value-chains and reduced output and more widespread economic crisis. Other budgetary impacts on a national level may include international commitments on climate funds, development assistance and refugees.
- With regards to the transition risks, recent OECD/ITF work has looked into the potential tax policy responses to counter revenue erosion in the transport sector in the long run when vehicle technologies rely increasingly less on fossil fuels. For the case study of Slovenia, the researcher showed that under current policies, tax revenues from diesel and gasoline use in private cars are likely to decline substantially in the coming decades. The study recommends Slovenia to gradually reform the tax system, starting now, to allow for a smooth adaptation to technological changes in the vehicle fleet and the timely implementation of accompanying measures. Furthermore, shifting from taxes on fuels to taxes on distances driven could contribute to more sustainable tax policy over the long term, improving environmental and mobility outcomes at the same time.
- As highlighted by the Swiss presentation, there are important challenges to a more systematic and quantified approach to the integration of climate change risk to fiscal sustainability. These include in particular the lack of data on quantified economic impact and the difficulty to predict frequency of extreme weather events and the impacts on the rest of the world (spillovers, migration, trade etc.). More research and data will be needed to compute the budgetary impact of climate change. As a starting point, the discussions suggested to conduct a survey under the PCGB on available research reports, latest published results, data and work in progress in OECD countries.

Session 5: Towards green budgeting: a roadmap

The session discussed the analytical framing of green budgeting, what capacities and methodologies are needed for a comprehensive approach to green budgeting, and discussed the role of building blocks, and in particular of a “Green Budget Statement” in this process. As part of the discussion, the session included a review of several initiatives among members of the collaborative to move towards green budgeting.

Speakers and topics:

- **Ms. Juliane Jansen**, Policy Analyst, Budgeting and Public Expenditure Division, OECD Governance Directorate
- **Mr. Murray Petrie**, Senior Research Associate, Institute of Governance & Policy Studies, Victoria University of Wellington, New Zealand
- **Ms. Monique Fasol**, Head of Tax Policy Division, Ministry of Finance, the Netherlands: Dutch Climate Policy – A roadmap
- **Mr. Alexandre Godzinski**, Natural Resources and Risk Economics, Ministry of Ecological and Inclusive Transition, France: **Around Green Budgeting – Recent Developments in France**

Key messages:

- Moving towards a comprehensive approach of green budgeting will require the implementation of essential underlying processes, potentially over the course of several budget cycles. To support countries in this process, the OECD is working on a roadmap that will provide concrete guidance for policy makers to adapt green budgeting in a gradual way that responds to their political and institutional capacities. The building blocks of the roadmap relate to three main aspects of green budgeting as defined by the OECD namely, 1) evaluating environmental impact of budgetary or fiscal policies; 2) assessing their coherence towards the delivery of national and international commitments and 3) contribute to an informed, evidence-based debate.
- In this view, the presented roadmap suggests potential intermediary stages of green budgeting that countries can adapt to according to their political and institutional capacities. However, each of the elements contributes in itself to improved mainstreaming of an environmental perspective across the budget cycle. The roadmap does therefore not necessarily call for a chronological sequence, nor provide a complete instruction to green budgeting. Furthermore, it was stressed that at each stage, it will require political and administrative commitment to ensure that evidence feeds back into the budgetary decision-making process.
- The OECD approach was backed by a like-minded proposal for the use of the annual budget cycle to achieve better integration of environmental stewardship with government strategy in New Zealand, presented by the Institute of Governance and Policy Studies of the Victoria University of Wellington. The presented proposal supported the view to incorporate relevant environmental information in the strategic phase of the budget cycle. According to the researcher, this could include latest data on trends in key environmental indicators, resilience and risks, and policy implications; current government environmental strategies, targets, recent performance, focusing on critical environmental outcomes; the consistency of government’s environmental targets and announced targets in other policy domains; and a discussion of the levels of short to medium term risks around environmental outcomes in the context of fiscal strategy.
- France has started to develop a document that will be published with the annual budget (“jaune budgetaire”) that provides an overview of relevant policies and highlights their alignment with France’s climate objectives. The document consolidates existing reports and adds new information on public and private environmental expenditure that is aligned with environmental targets. The document is being developed by a high-level mission with experts from the Ministry of Finance and the Ministry of Ecological and Inclusive Transition and reflects France’s commitment made at the One Planet Summit in 2017. In the Netherlands, the Government has introduced several initiatives to for a comprehensive approach to climate policy across Government (Klimaatakkoord).

