



## An Overview of the Green Budgeting Initiative

### PBO Note 24 of 2018

#### Introduction

In Budget 2019, the Government announced<sup>1</sup> their participation in the Paris Collaborative on Green Budgeting, launched by the OECD in 2017.

This note provides Members with information on:

- What green budgeting is and the rationale behind this initiative;
- The main objectives and key commitments of the green budgeting initiative; and,
- Future developments and next steps.

#### Climate Change and the Rationale for Green Budgeting

Climate change is widely acknowledged as a major risk which, without decisive action, will lead to significant long term costs. To respond to this challenge and support governments in meeting their climate obligations, there has been a growing emphasis internationally on better embedding climate and environmental considerations into the budget-making process. Green budgeting is an initiative led by the OECD that envisages the use of budgetary tools to achieve the integration of environmental and climate issues.

The EU has committed to reduce greenhouse gas emissions and to achieve renewable energy and energy efficiency targets. To support the EU in the achievement of these goals, individual member states are given country specific targets. Failure to reach these targets may lead to potential fines being imposed or the need to purchase emissions permits. The latest 2018 Environmental Protection Agency (EPA) projections indicate that Ireland is unlikely to reach its 2020 and 2030 targets.<sup>2</sup>

National environmental and climate goals can be of relatively low priority due to the tendency of individuals to exhibit a 'present bias.' In effect, this means that small short-term gains are valued over larger long-term rewards. Tackling climate change effectively requires investment in the short-term to avoid larger costs in the long-term that will be borne by future generations. As governments are held accountable to the current electorate, who bear the short-term costs of climate action, it may be difficult for policy makers to prioritise climate change considerations in budget decisions.

<sup>1</sup> Minister for Finance (2018). [Budget Speech 2019](#)

<sup>2</sup> Environmental Protection Agency (2018). [Ireland's Greenhouse Gas Emissions Projections 2017-2035](#)

By mainstreaming climate considerations into the budget process, green budgeting can contribute to more informed policy debate. It can also increase transparency in terms of expenditure on environment and climate issues and highlight if policies in the budget are consistent with climate change goals.

#### Paris Collaborative on Green Budgeting

The Paris Collaborative on Green Budgeting was launched by the OECD<sup>3</sup> in December 2017. The aim of this initiative is to design new budgetary tools to assess and improve on the alignment of national climate and environmental goals with the budgetary process. This initiative also provides an international platform for participating countries to identify research priorities, share data and develop cross-national indicators of progression towards environmental goals and commitments.

Along with founding members France and Mexico, Norway, Switzerland and now Ireland have committed to this initiative so far. By joining the Collaborative, Ireland is committing to participate in regular meetings at senior expert level and to contribute to analytical work including the development of new green budgeting tools. Through PBO's engagement with the OECD, the OECD confirmed that commitment to the initiative does not imply a legal commitment to adopt green budgeting practices. A number of activities are optional to adopt, such as piloting different green budgeting tools in the budget process, which will be supported by the Collaborative. Outputs of the Collaborative are yet to be fully defined and agreed upon. The OECD Secretariat is currently working on a '*Roadmap towards Green Budgeting*', which aims to provide guidance to countries that seek to implement a green budgeting agenda.<sup>4</sup>

The OECD initiative aims to develop tools which are implementable within existing national frameworks. Consistent with this, the Government has committed to publish a list of climate-related expenditure in this year's Revised Estimates Volume (REV), as a first step. A briefing paper by the PBO<sup>5</sup> (summarised in Box 1) found that tracking the total amount of climate-related financial resources is a necessary first step when implementing initiatives aimed at mainstreaming climate related objectives into the budget process. As climate-related

<sup>3</sup> The OECD is an intergovernmental economic institution with 36, mostly high-income, member countries.

<sup>4</sup> Information obtained through PBO engagement with the OECD between 05/11/18 and 08/11/18.

<sup>5</sup> PBO Briefing Paper 12 of 2018. [An Approach to Better Incorporate Climate-related Considerations into the Budget Process](#)



expenditure crosses different Departments (i.e. Transport, Housing, Agriculture, etc.) and relates to different programmes to varying degrees, total climate-related expenditure is not currently estimated.

To estimate the quantum of funding that is committed to climate action, the European Commission uses a 'Rio Markers' approach which assesses the objectives of a programme and attributes a portion of total programme expenditure to climate-related expenditure, if climate is an objective of the programme. The approach applies the following rules:

- 100% of expenditure is tracked as 'climate-related' if climate is the primary objective of the programme.
- 40% of expenditure is tracked as 'climate-related' if climate is a significant objective of the programme but not the primary objective.
- 0% of expenditure is tracked as 'climate-related' if climate is not an objective of the programme.

## Future Developments and Next Steps

The PBO welcomes the Government's announcement to join the Paris Collaborative and to publish a list of all Exchequer climate-related expenditure in the REV, and would emphasise that consideration be given to the role that the Oireachtas and its Committees can play in support of these initiatives.

Based on correspondence between the PBO and the Department of Public Expenditure and Reform (DPER), green budgeting is expected to be an iterative process which will develop over several years.<sup>6</sup> The specific tools and methodologies implemented will depend on the engagement with the OECD. Discussions between the OECD, Department of Finance and DPER are expected to take place during 2019. The PBO also acknowledges that DPER is currently reviewing how greenhouse gas emissions should be valued in the Public Spending Code.<sup>7</sup> The findings from this consultation will have implications for the evaluation of investment projects having significant environmental impacts.<sup>8</sup>

These announcements are consistent with suggestions made in PBO Briefing Paper 12 of 2018, which researched the use of green budgeting in other countries and different approaches to incorporate climate-related considerations into the budget process.

The PBO will continue to monitor developments and intend to keep Members updated on future developments.

<sup>6</sup> Correspondence made between 02/11/18 and 08/11/18.

<sup>7</sup> Department of Public Expenditure and Reform (2018). Consultation on [Valuing Greenhouse Gas Emissions in the Public Spending Code](#)

<sup>8</sup> More information on how greenhouse gas emissions are valued in Cost Benefit Analyses of capital projects can be found in Appendix 1 and 2 of PBO Briefing Paper 12 of 2018.

## Box 1 - Briefing Paper 12 of 2018 "An Approach to Better Incorporate Climate-related Considerations into the Budget Process"

By making use of first-hand survey evidence obtained through the European Centre for Parliamentary Research and Documentation (ECPRD), which helps gather information on other countries' approaches, this paper investigates alternative approaches to better integrate climate-related considerations into Ireland's budgetary process.

The findings indicate that for most of the countries analysed, climate change has no special position in the annual budgetary process. However, it is still possible to identify key learnings and useful case studies. While Ireland is not found to lag behind the average ECPRD country, four countries – Austria, Sweden, Italy and Norway – adopt budget frameworks that incorporate climate-related issues to a greater extent.

Four reform options are proposed on the basis of an analysis of the original elements of the four case studies and of an assessment of the strengths and weaknesses of Ireland's current framework:

1. Having a short section on what is done in the Budget in relation to climate change in the Annual Budget Statement (or budget speech) of the Minister for Finance and Public Expenditure and Reform;
2. Publishing a supplementary report alongside the Budget;
3. Strengthening the performance-based budgeting framework that is already in place; and,
4. Making use of public expenditure reviews and producing regular spending review papers addressing climate-related topics.

Furthermore, the practice of 'Climate Budget Tagging' to track and monitor climate-related spending is of fundamental importance and is a pre-requirement for any initiative aimed at incorporating climate-related considerations into the budget process.

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Contact: [PBO@Oireachtas.ie](mailto:PBO@Oireachtas.ie)

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