

2022 OECD Survey on Green Budgeting

Glossary of key terms

Section 1 – Context

- **Green budgeting:** Integrating climate and environmental considerations in the budgetary process. It involves the use of special initiatives, processes and analytical tools with a view to promoting policies and investments that help achieve climate and environmental goals and commitments.

Section 2 – Institutional arrangements

- **Nationally determined contributions (NDCs):** NDCs represent efforts by countries to decrease emissions and adjust to the effects of climate change. The Paris Agreement requires each country to formulate and implement NDCs. Countries shall adopt measures, with the intention of realising the purposes of those contributions.
- **Net zero emissions strategy:** The net zero emissions strategy sets out policies and proposals to reduce emissions in sectors of the economy to meet a net zero target by a specified date, such as 2050.

Section 3 – Methods and tools

- **Multi-annual budgets:** Multi-annual budgets are spending plans that translate the government's priorities into financial terms over several years. They set out spending over a period, as well as the amounts (ceilings) available for each major category of expenditure.
- **Macro fiscal projects:** Macro fiscal framing is an ongoing and perfectible tool. The ministry in charge of macroeconomic forecasting produces forecasts and scenarios that integrate environmental considerations according to a timetable that is consistent with the budgetary cycle. It allows for a coherent macro-fiscal closure based on the latest macroeconomic information available. The macro-fiscal forecasting model that integrates the environment is updated during the budgetary cycle (with new measures and macroeconomic information).
- **Risk analysis:** Risk analysis includes environmental risk in the short, medium and long term. The analysis of environmental risks must be formalised in a map identifying all the processes. A risk report identifies risk and the measures that are in place to manage risk. The budget forecasts refer to risks according to the scale of impact, the probability and the level of control.
- **Carbon budget:** *“Mitigation requirements can be quantified using carbon budget approaches that relate cumulative CO₂ emissions to global mean temperature increase. A carbon budget is an estimated cumulative net global anthropogenic CO₂ emissions from the pre-industrial period to the time that anthropogenic CO₂ emissions reach net zero that would result, at some probability, in limiting global warming to a given level, accounting for the impact of other anthropogenic emissions”* (IPCC, 2022^[1])
- **Carbon tools:** Carbon tools include carbon assessment of budget measures, carbon-pricing instruments including fuel and carbon taxation, emissions trading systems and the use of a shadow price of carbon to evaluate public policies and investment.

- **Shadow price of carbon:** It is an economic tool designed to internalise in market prices the hidden costs (externalities) of the damage caused by greenhouse gas emissions, in order to steer the decisions of economic agents towards low-carbon solutions. Pricing can take the form of a carbon tax or an emission allowance system.
- **Ex-ante or ex-post environmental impact assessments of budget measures:** *Ex-ante* policy evaluation and impact assessments contribute to policy development by informing policy design and decision-making. By monetising environmental externalities *in ex-ante* evaluations and considering the distributional impacts on society, decision makers are better placed to consider the trade-offs that are inherent in budget initiatives. *Ex-post* impact assessments and evaluations are also crucial for a government to understand how initiatives have performed.
- **Environmental cost benefit analysis of budget measures and investments:** An analysis of the cost and benefits of a budget proposal that takes into account the environment consequences that affect the natural environment.
- **Ex-ante or ex-post green budget tagging:** Green budget tagging classifies budget measures according to their climate and environmental impact and enhance the transparency of a government's green actions. Countries tend to take an adaptive approach to green budget tagging, allowing the scope and processes to evolve as capacities increase over time (OECD, 2020^[2]).
- **Green spending reviews:** climate and environment are included as a distinct dimension of analysis for spending reviews.

Section 4 – Accountability and transparency

- **Green budget statement/report:** A statement provided alongside the draft budget that includes information relevant to how the budget affects climate and environmental goals.
- **Independent Fiscal Institution:** Independent fiscal council or parliamentary budget office with a mandate to critically assess, and in some cases provide non-partisan advice on fiscal policy and performance (OECD, 2022^[3]).

Section 5 – Enabling environment

- **Programme budgeting:** Programme budgeting refers to the classification of individual budget items on a programme basis. Programmes are government projects or groupings of government activities in relation to specific government objectives.
- **Performance budgeting:** “Performance budgeting is defined by the OECD as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved” (OECD, 2019^[4]).

References

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<http://www.oecd.org/gov/budgeting/OECD-IFI-Principles-implementation-report.pdf>.
- OECD (2020), *Green Budget Tagging: Introductory Guidance and Principles*, [2]
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- OECD (2019), *OECD Good Practices for performance Budgeting*, [4]
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