

## Subnational Government Finance for Environment and Climate Action in OECD and EU Countries

- ▶ This joint OECD and European Commission project will enhance the ability to track and measure climate-related finance undertaken by subnational governments in order to identify progress made towards meeting Paris Agreement commitments.
- ▶ The project consists of three main work-streams:
  - A **literature review** detailing current climate finance tracking initiatives and methodologies at the international, national, and local levels.
  - A **macro-level approach** featuring the creation of an on-line observatory (fiscal database and compendium) for subnational government finance related to climate and the environment.
  - A **micro-level approach** consisting of a green budgetary analysis for two case studies (one city, one region) ending in the formation of Green Fiscal Strategy and Action Plans and a self-assessment tool.

### Background and rationale

Regions and cities are key players in the transition to a climate-neutral economy. They are simultaneously highly vulnerable to the impacts of climate change and at the centre of mitigation and adaptation efforts due to their authority over key policy domains relevant to the climate-neutral transition. The financial role of cities and regions, however, is poorly understood. This is due, in large part, to gaps in climate-related expenditure and investment flow data at the subnational level, hindering efforts to track progress towards meeting Paris Agreement commitments.

In 2018-19, the OECD carried out a pilot study to address these data limitations. It included developing a preliminary methodology for classifying climate-related expenditure and investment at the subnational government (SNG) level. The results of the study showed that subnational governments generate a significant proportion of climate-related public expenditure and investment. In 2016, across 30 OECD countries,

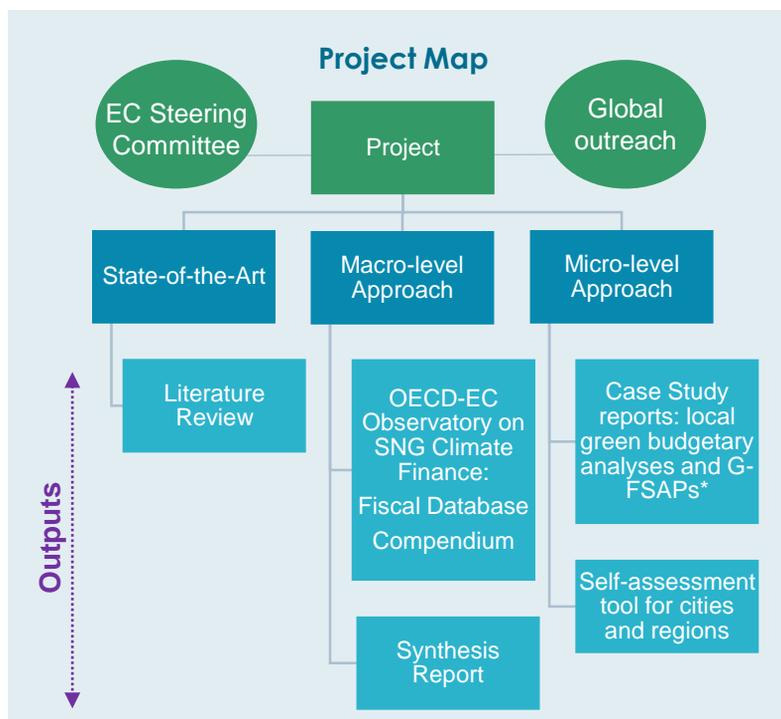
subnational governments accounted for 55% of public spending and 64% of public investment related to the environment and climate, on average. The pilot study revealed the need for an international standardised methodology to enhance the tracking, measurement, and assessment of subnational government spending and investment related to climate priorities.

Building on the pilot study, the OECD and the European Commission joined forces to launch a new project on “*Measuring and Enhancing Subnational Government Finance for Environment and Climate Action in OECD and EU Countries*”. The project contributes to enhancing the tracking and measurement of climate-related finance at the regional and local government levels in order to assess progress towards meeting the Paris Agreement commitments; and to improve frameworks, programmes, and instruments that help subnational governments respond to environmental and climate priorities.

## Stream 1: Literature Review

The literature review will assess the current state of climate finance tracking initiatives and methodologies across all levels of government in order to grasp their differences and similarities and to develop a common terminology and understanding of subnational climate finance. In the absence of a standardised and globally-recognised methodology for tracking and measuring climate-related expenditure at the subnational level, individual organisations have developed their own.

Through rigorous research using existing methodologies and data sources, including those from the OECD, Climate Policy Initiative (CPI), multilateral development banks, international financial institutions, and the EU sustainability taxonomy, the literature review will propose a unified definition of what constitutes climate/green/environmental actions and finance.



## Stream 2: Macro-level Approach

The macro-level approach will develop an on-line observatory for subnational government climate finance.

The observatory will consist of two components:

- ▶ **A fiscal database with aggregate data on subnational government climate-related expenditure and investment in OECD and EU countries.** The data will be collected using a standardised international methodology that builds on the method used in the OECD pilot study.
  - The methodology will use COFOG government statistics from the National Accounts and OECD Subnational Government Finance databases along with a set of predetermined indicators to quantify shares of expenditure and investment that were climate/environment related.
  - The revised methodology will cover more countries and COFOG sectors using a refined set of indicators.
  - The analysis will assess the financial involvement of subnational governments in current and past environment and climate related expenditure and investment.



### Literature Review

- ▶ Assesses the current state of climate finance tracking initiatives across all levels of government.
- ▶ Proposes a unified definition for what constitutes climate/green actions and finance.

## Stream 2: (Continued)

- A compendium of international, national, and local-level frameworks, programmes, and instruments that support subnational government climate initiatives in EU and OECD countries. Information will be collected from qualitative field research and made available on-line through an interactive web tool.

## Stream 3: Micro-level Approach

To achieve a more granular and qualitative analysis, two pilot case studies (one region and one city) will be conducted. **The case studies consist of a subnational green budgetary analysis, from both the expenditure and the revenue sides.**

- ▶ Expenditure/investment items will be analysed in order to identify the share of spending with the greatest leverage-effect on climate change adaptation and mitigation. The goal is to help cities and regions use green budgeting to identify spending areas with the highest climate benefit potential and to develop corresponding policy actions.
- ▶ The revenue side analysis will focus on budgetary and external sources of funding including grants, subsidies, shared taxes, own-source taxes, non-tax own revenue (user charges and fees), borrowing, and green PPPs.
- The aim is to identify new sources of revenue and to find ways of greening and diversifying existing ones.

Data will be collected from local and regional budgets and qualitative field research, with the main outcome being the development of a Green Fiscal Strategy and Action Plan (G-FSAP) for each case study.



### Macro-level Approach

- ▶ An on-line observatory on subnational government climate finance consisting of two components:
  - A fiscal database with aggregate data on subnational government climate-related expenditure and investment.
  - A compendium of frameworks, programmes, and instruments that support subnational government green initiatives.

The G-FSAP will include an assessment and recommendations on how to mainstream green priorities into all sectors, with a specific focus on green budgeting. Additionally, a self-assessment tool in the form of a green budgeting framework will be developed to assist with G-FSAP development at the city and regional levels.



### Micro-level Approach

- ▶ Two case studies (one region, one city) featuring an in-depth subnational green budgetary analysis.
- ▶ Green Fiscal Strategy and Action Plans for each case study.
- ▶ A self-assessment tool (one for cities, one for regions) will be developed.

## Global Outreach and Dissemination

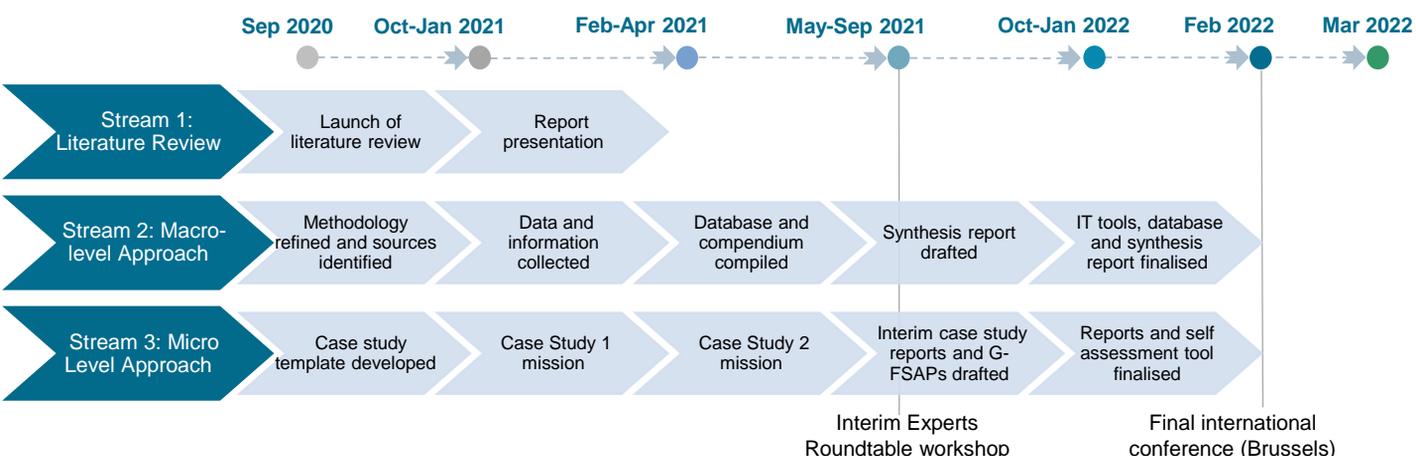
The final dimension of the project focuses on building synergies with other initiatives to enhance shared learning, idea dissemination, and project feedback by:

- The establishment of an experts roundtable on subnational climate finance that includes international, national, and subnational perspectives. Two conferences will be organised

to align with the release of the draft findings and final report.

- With the help of the Leadership for Urban Climate Investment (LUCI) initiative, coordinated by Climate Policy Initiative (CPI) and Cities Climate Finance Leadership Alliance (CCFLA), the tracking methodology and findings will be disseminated worldwide.

## Project timeline



## CONTACT

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### The OECD Decentralisation, Public Investment and Subnational Finance Unit

The OECD Decentralisation, Public Investment and Subnational Finance Unit, under the Economic Analysis, Statistics, and Multi-level Governance Division of the CFE, works closely with countries to enhance their multi-level governance practices, including in decentralisation, fiscal management, cross-sector and multi-level dialogue and coordination, and performance measurement. It also supports countries to take a more systematic and more innovative approach to subnational government finance and investment.

 <http://www.oecd.org/regional/multi-level-governance.htm>

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