

Making the most of subnational green budgeting to mobilise private climate finance

Thursday, October 6th, 2022

Summary of the session

Subnational governments play an important role in realising the carbon-neutral transition through their spending, investment and revenue choices. As was recalled by **Courtenay Wheeler**, Policy Analyst at the OECD and session moderator, in 2019, subnational governments accounted for 63% of public climate expenditure and 69% of public climate investment, on average, in the OECD and EU. For subnational governments to realise their full potential for catalysing the carbon-neutral transition, it is important that they have the necessary tools to mobilise public and private climate finance.

Green budgeting is a form of priority-based budgeting that uses the tools of budgetary policymaking to achieve climate and environmental goals. **It is a concrete tool that regional and local governments can use today to better align their spending, investment and revenue decisions with their green objectives** and improve the monitoring of existing and future climate policies. Green budgeting can also improve the ability of governments to prioritise low-carbon and resilient investment projects in line with the green recovery and green investment needs. This in turn can help to improve transparency, accountability and trust in government climate action, and can unlock access of subnational governments to more public and private climate finance. The OECD has been committed to work on this topic for several years, and it recently launched the [Subnational Government Climate Finance Hub](#) (The Hub) to bring together its body of work. The Hub includes a section on green budgeting, providing a set of guidelines on subnational green budgeting, a self-assessment tool, and two case studies on the Region of Brittany in France and the City of Venice in Italy, prepared with the support of the European Commission.

While subnational green budgeting has significant potential, panellists noted in the opening round of questions that **developing and implementing green budgeting at the subnational level requires overcoming a certain number of challenges.** **Gaël L'Aot**, Inspector General of Service for the Regional Government of Occitanie (France), the first French region to develop a green budget, highlighted the tension that can exist between green objectives, for example between biodiversity and climate mitigation, and that trade-offs may need to be made within the green budgeting methodology to account for this tension, based on regional or local priorities. **Kit England**, Green Economy Manager at the Glasgow City Council (Scotland, UK), noted the challenge of ensuring that the implementation of green budgeting approaches do not interfere with the existing budgetary procedures, but instead complement them. **Riikka Torppa**, Deputy Head of Unit for Revenue Administration and Public Financial Management at DG Structural Reform Support (DG REFORM) within European Commission, summed up the challenges of implementing green budgeting at the subnational level as a misalignment between three key factors: skills and tools, reliable and representative data, and political steering and ownership.

Among the panellists, there was consensus that **the benefits and opportunities for subnational governments of adopting a green budgeting approach outweigh the challenges.** **Enrique Rodriguez Varo**, General Secretary of Budgets, Expenses, and European Financing for the Junta de Andalucía (Spain), highlighted that implementing green budgeting helped to break down operational siloes between regional

government departments and to improve the overall coherence of the government policymaking. **Laurent Gautier-Falret**, Marketing Director for the Local Public Sector and Associations at the La Banque Postale, added that as standardisation of green budget methods occur, the intelligence and data gathered from these practices could help reconcile investor demand for stringent environmental and climate impact measurement with the overall finance demand from subnational governments. Higher levels of government can also benefit from the experiences of subnational green budgeting, a point emphasised by **Riikka Torppa** who noted that the result of the DG REFORM's collaboration with Andalusia in developing their green budget and sustainable finance framework informed an ongoing project between DG REFORM and the Spanish national government.

Linking green budgeting to the mobilisation of public and private climate finance involves numerous actors and can take on different forms. The Autonomous Community of Andalusia chose to develop its Sustainable Finance Framework and its green budgeting approach in unison, in order to make dual use of green budgeting tools to identify the climate impact of proposed budget items that could then be financed by the proceeds of the region's sustainable bond issuances, as explained by **Enrique Rodriguez Varo**. **Kit England** noted that Glasgow was motivated to develop its green budgeting approach, among other reasons, to diversify its financing options, and is now taking the steps to do this based on the insights gathered from its first green budget. He noted that for Glasgow, green budgeting is also a tool to influence and engage with other actors, including from the financial sector, and get them on board with the city's ambitious low-carbon transition plans. The financial sector plays an important role in meeting subnational governments half-way and ensuring green finance options are available to meet growing demand from subnational governments. **Laurent Gautier-Falret** agreed with this and stressed the need for a concurrent democratisation of green finance so that subnational governments of all types and sizes have access to resources to develop locally driven climate action, an area in which La Banque Postale has been actively engaged in recent years. **Gaël L'Aot** noted that higher levels of government can also play a key role by amending subnational fiscal frameworks to incentivise the use of green financing and make it easier to access for regions and cities of all sizes. **Riikka Torppa** highlighted that DG REFORM's technical support instrument (TSI) provides EU Member States with financial and technical support to deliver on the objectives of the European Green Deal, including by implementing green budgeting, and that subnational governments in the EU can also benefit from support by applying for technical assistance through the annual TSI call for proposals.

Going forward, the panellists emphasized the need for more peer exchange between subnational governments to share knowledge and best practices. Continued collaboration between levels of government is also needed to further disseminate green budgeting at the subnational level.

