

# Green budgeting

## INTRODUCTION

Green budgeting is a budgetary policy-making approach that integrates environmental considerations into state budgets. It is useful for assessing the environmental impacts of spending decisions and aligning public budgets with green goals. This approach aims to enable systematic tracking of funds, expenditures, and policies related to green objectives, facilitating better coordination and identification of financial needs for climate action and environmental sustainability.

Green budgeting can be integrated into existing budgeting frameworks and hence does not require significant additional funding. It focuses on the expenditure side of the budget to assess each item or program in terms of its green outcomes and inform government budget allocations accordingly (TERI and ADRI 2022).

Green budgeting overlaps with but also has material differences from climate and SDG budgeting, as outlined below.

### **GREEN BUDGETING**

Covers all environmental and sustainability-related budgetary policies, including climate change, biodiversity, pollution, and resource efficiency.

### **CLIMATE BUDGETING**

A subset of green budgeting, focused solely on integrating climate commitments (mitigation & adaptation) into public financial planning.

### **SDG BUDGETING**

Focuses on aligning national and subnational budgets with the 17 UN Sustainable Development Goals (SDGs), covering economic, social, and environmental objectives.

Globally, green budgeting has proven effective in aligning fiscal policies with environmental goals. Countries like Austria and France tag expenditure in their national budgets to track green spending. Others, such as Canada, Ireland, South Korea, Indonesia, and India, have taken region-specific approaches. In India, Bihar has been the pioneer in green budgeting, releasing its first green budget in FY 2020-21. Following this, many other states have released similar budgets to track environmental spending. (OECD, no date).

## CHARACTERISTICS OF GREEN BUDGETING

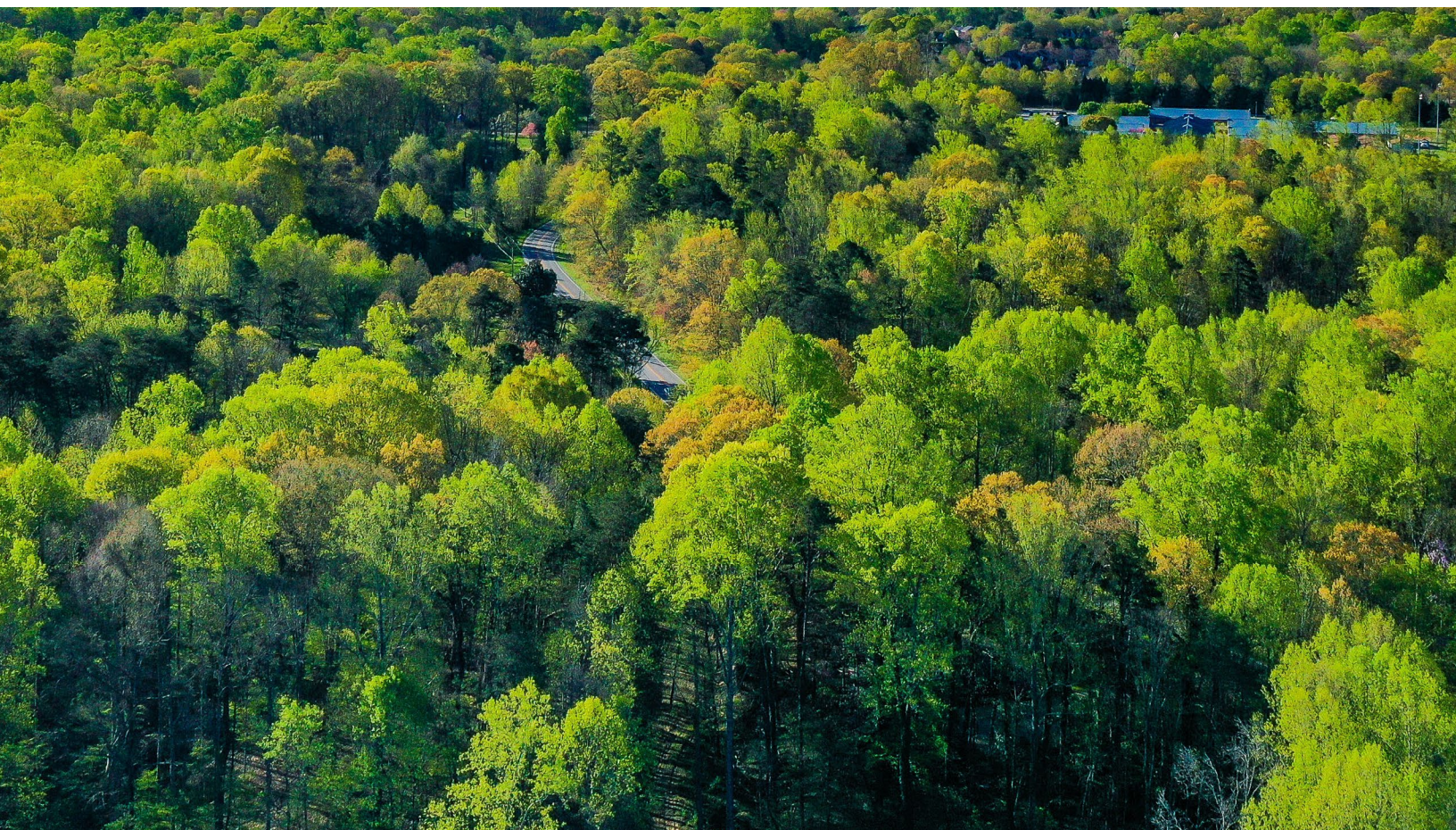
1. Green budgeting is characterized by the following features: Green budgeting facilitates aligning the government's developmental priorities with environmental goals, particularly in sectors such as agriculture, forestry, fisheries, and water resources.
2. This 'bottom-up' process begins by analyzing government programs, regardless of department, to identify those that already address environmental concerns.
3. It promotes transparency and accountability in resource allocation and utilization from an environmental perspective.
4. It should lead to mainstreaming of green objectives in the existing programs and policies of all departments, either through modification to better align with green outcomes or by introducing new components within existing activities to address environmental concerns.



# METHODOLOGICAL APPROACHES TO GREEN BUDGETING

Three common approaches to green budgeting are outlined below.

METHODOLOGY	TYPE	PURPOSE	MECHANISM
OECD Rio Markers (RM) (OECD 2011)	Qualitative	Tracking the environmental relevance of aid/projects	Rio Markets of 0-2 are assigned based on whether biodiversity, desertification, or climate change... A. Is not targeted (0% budget; RM=0) B. Is a significant objective (40% budget; RM=1) C. Is a principal objective (100% budget; RM=2)
EU Coefficient (EU CLIMATE COEFFICIENTS 2021)	Quantitative	Estimating the share of the budget supporting green goals	The methodology assigns the following coefficients to specific intervention fields: A. 100%(substantial) B. 40%(moderate) C. 0% (insignificant/no impact)
MDB Joint Methodology (IDFC 2019)	Activity-based (hybrid)	Tracking the climate finance portion of MDB projects	Assess climate-related (mitigation/adaptation) share







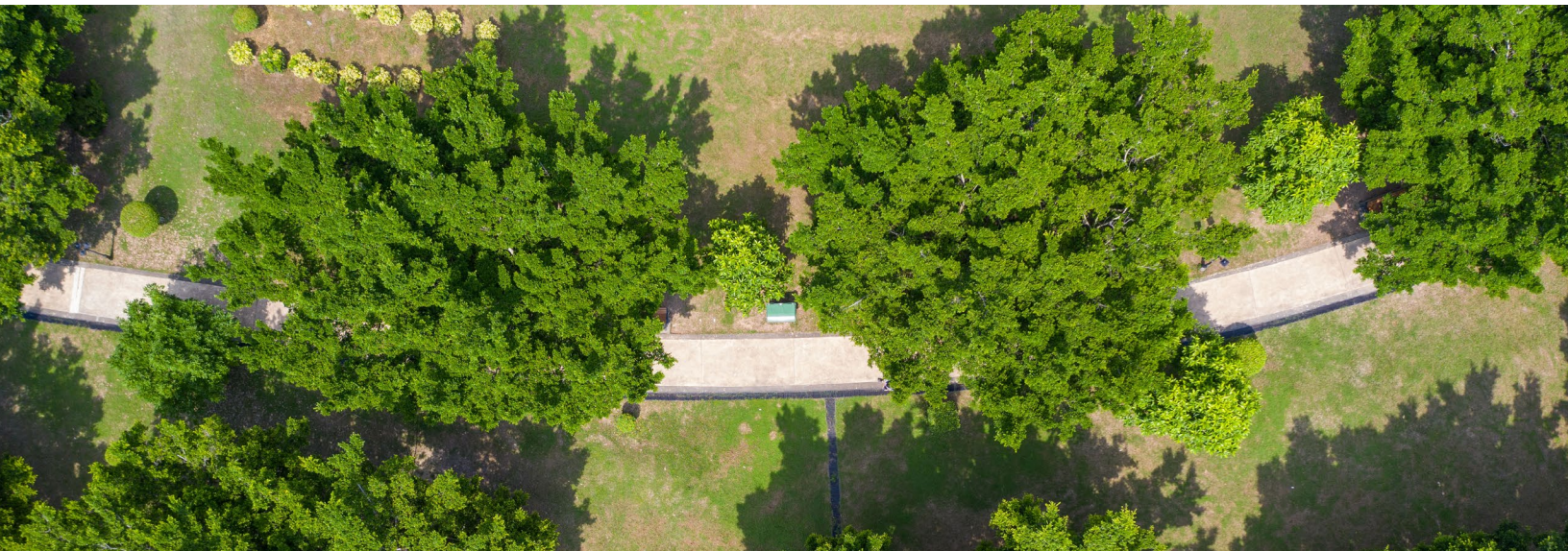
# GREEN BUDGETING IN INDIA

Green budgeting is gaining momentum at the state level in India. In FY 2020-21, Bihar became the first Indian state to release a green budget. Subsequently, Assam and Puducherry have also released green budgets; Odisha, Meghalaya, and Rajasthan have released climate budgets, and Kerala has released an environment budget. However, states are using different frameworks in the absence of national guidelines. For example, Bihar and Assam have both adopted the Rio marker methodology but use different coefficients to calculate the proportion of green allocations and expenditure, as shown in the table below.

*\*Percentages indicate the proportion of the budget allocation for green initiatives.*

	<ul style="list-style-type: none"><li>Fully dedicated (90-100%)</li><li>Very high significance (75-90%)</li><li>High significance (50-75%)</li><li>Medium significance (25-50%)</li><li>Low significance (2-25%)</li><li>Marginal significance (up to 5%)</li></ul>
	<ul style="list-style-type: none"><li>Highly favorable (100%)</li><li>Moderately favorable (≥40%)</li><li>Neutral (&lt;40%)</li><li>Less favourable (0)</li></ul>

Rajasthan does not specify the methodology used for its climate budget but appears to follow the Rio Marker methodology. Odisha’s climate budget uses climate change impact appraisal analysis. Other states use qualitative methods to prepare their climate/environmental budgets by either classifying schemes as relevant for climate mitigation and adaptation or highlighting those with green components.



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## CHALLENGES TO GREEN BUDGETING IN INDIA

- India lacks a standard framework for green budgeting. Consequently, data on expenditure and allocation for green outcomes are incomparable across states.
- Capturing the environmental contributions of a specific budget line item can be challenging due to data gaps, as government programs often lack metrics or indicators to assess their impacts on green outcomes.
- The limited institutional capacity to conduct necessary analysis further poses challenges in quantifying green components within budgetary allocations.

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## WAY FORWARD

- A standardized framework for green budgets is essential to streamline the process.
- Build technical and institutional capacity for enabling climate-informed analysis and effective integration in the budgeting framework
- The green taxonomy developed by the Government of India can serve as a foundation for preparing such a framework.

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The Clarifying Concepts series provides short explanations of foundational ideas and terminology in sustainable finance to help professionals from different fields navigate emerging issues.

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