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# Next Generation Budgets

# How to start your Next Generation Budgets journey

## Do you have a net zero emissions plan?

**YES**

Great, now you need a green budget that aligns your state and regional budget to your climate goals.

**NO**

Join the Under2 Coalition today and learn from subnational governments.

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### What's a Green Budget

A green budget is a budget that has climate action built into its very core through policies, targets and financial decisions. It's built by using budgetary tools that assess and align public finances with environmental and climate goals. It ensures that government spending and revenue policies support climate action.

### Why the Budget Cycle Matters for Subnational Climate Action?

The budget cycle is a key opportunity for cross-sector policy coordination, allowing climate considerations to be mainstreamed and integrated into core budgeting process. Green budgeting turns this annual process into a tool for stronger collaboration between finance and environment departments and greater awareness of climate issues.

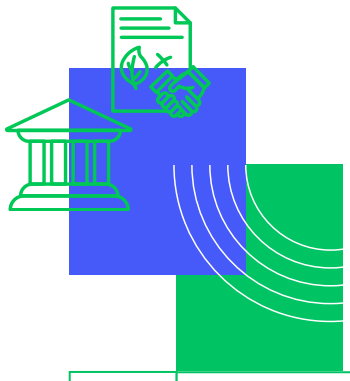
# What are the key steps for state and regional green budgeting?

## 1 Secure political buy-in to implement your local Green Budget approach.

Getting political buy-in and engaging with elected officials will allow for a holistic, whole-of-government approach.

## 2 Form a cross-department green budget task force that includes the environmental and finance departments or ministries.

Strong co-leadership and sponsorship from the departments of finance and economy is vital. While they take the lead in implementing the process, close collaboration with the environmental and climate department and a clear definition of roles are strongly encouraged.

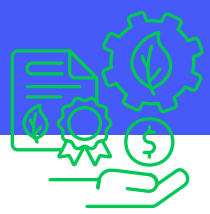


## 3 Define Objectives, Budget Scope, and Priority Sectors

Set clear objectives, such as enhancing the transparency and accountability of climate and environmental action. Define the financial scope (e.g. main budget revenues and expenditures), and identify priority sectors such as energy, industry, and agriculture for green budgeting analysis.

## 4 Ensure your approach relies on robust scientific evidence and aligns with your regional climate strategy

As recommended by the Organisation for Economic Co-operation and Development (OECD), base your green budgeting approach on sound climate science and regional climate plans to ensure it reflects local priorities.



## 5 Develop a robust and consistent classification system for green budget tagging to guide your definition of climate-favourable and unfavourable items.

Use tagging as the first green budgeting tool, focusing on climate mitigation. Develop a clear classification system to accurately assess the budget's positive and negative impacts on climate goals.

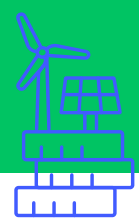
You can use existing tools for guidance, such as the classification grid from the Institute for Climate Economics' Local Budgets Climate Assessment Guide and the EU Green Budgeting Reference Framework.

Green budget tagging identifies the impacts on climate and environment of each expenditure in a budget. Once governments develop their classification system or taxonomy, they can analyze the budget line by line, tagging items as beneficial, neutral or harmful to reaching their goals. Green budget tagging can have a purely climate mitigation focus (climate budget tagging). The Under2 Coalition recommends implementing green budgeting as a core component of achieving net zero and:

- encourages all states and regions to implement green budget tagging to inform decision-making and resource allocation aligned with climate mitigation goals and
- suggests this assessment should be the first step in green budgeting and to broaden its scope over time as organizational capacity develops.

## 6 Once the methodology is established, pilot green budget tagging in key departments and sectors

Be aware of implementation burdens: Testing the approach first in key departments, such as transport, can help identify barriers and address concerns early. Secure leadership and political buy-in from departments selected for the pilot.



## 7 Ensure regular training and capacity development within line ministries to maximise learnings and improve methodology

For your green budgeting practice to continue over time and not become a one-off exercise, you should provide training to

## 8 Incorporate feedback from all relevant stakeholders and

staff or hire a green budgeting manager to coordinate effort. Use the results of the pilot analysis to assess how expenditure aligns with the current government's climate and environmental policies and propose how this can inform future spending decisions.

**best practices from the Under2 Coalition to improve processes.**

Your green budget task force should engage with key actors in the government to share objectives and results of green budget tagging analysis and ensure a whole-of-government approach. Connect with international peers on what works best on the ground. You could share your green budgeting journey with cities in your jurisdiction, engaging them in the process and offering support for greater vertical integration of green budgeting measures.

## 9

### Expand green budget tagging to the full budget and strengthen green budgeting efforts.

Make sure your approach covers revenues and expenditures, and tag thoroughly all measures that negatively affect reaching your environmental and climate goals. Green budgeting tools such as environmental impact assessment and climate cost-benefit analyses can help decision-makers to make informed decisions on where to spend and invest today to prevent carbon lock-in.

## 10

### Publish a green budget statement alongside the annual state and regional budget for increased transparency

Governments should make green budgeting statements and methodology publicly available. Transparency builds trust and allows citizens, businesses, and other stakeholders to understand how public funds are being allocated towards climate targets. Publish the results of your green budget tagging and include the specific scope of analysis and methodology chosen. Aim to include your green budget statement in debates or approval by relevant committees or regional assemblies.

# Evaluate the process and repeat!

Green budgeting is an iterative and adaptive approach; it can be built on over successive budget rounds as capacities develop, and systems are enhanced.

These green budgeting implementation steps were developed through our Next Generation Budgets—Green Budgeting Course, in partnership with Expertise France and EcoAct and with the support of I4CE.

Next Generation Budgets is a project led by Climate Group, in partnership with the Government of North Rhine Westphalia and funded by Stiftung Mercator. Through Next Generation Budgets, state and regional governments from Europe and United States receive technical training on green budgeting and take part in a Community of Practice to improve and learn new ways to unlock finance for climate action.

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