



## **CHARACTERISTICS AND CRITERIA OF BUDGET SYSTEM IMPROVEMENT BASED ON GREEN BUDGETING**

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<b>Published:</b> 14 <sup>th</sup> December 2023	This article describes in detail the specific features of improving the budget system based on green budgeting and green financing. On the basis of green budgeting, elements and tools of the state budget affecting sustainable ecological balance and environmental policy are analyzed. Also, criteria for improving the budget system based on green budgeting have been developed

**Keywords:** green budget, budget system green finance, green bond, green fund, environment, ecology, tax system.

### **INTRODUCTION**

The fight against global climate change, including: prevention of natural hazards, effective management of water resources, fight against environmental pollution, as well as the effective mobilization of state resources for the protection of natural, forest and agricultural areas. The existence of many such problems shows that improving the budget system based on green budgeting is one of the main tasks of today.

Of course, such problems do not solve themselves. This requires state intervention, state financial support, control, and being the chief reformer. Among them, the most complicated, if you can say the most difficult, is "green budgeting" or "green financing". Because the effectiveness of "green budgeting" depends on the creation of its source, then its correct and rational distribution (orientation) and control in order to implement "green financing". These areas are the main features of "green budgeting".

### **LITERATURE REVIEW**

According to the World Bank, the main factors that slow down the development of the green financing and budgeting system in most countries are the following [4]:

1. Development institutions are not involved in the green agenda and institutional investors do not fully understand the principles of "responsible investment";

2. Failure to establish a single coordinating center responsible for the development of the green financing and budgeting system;

3. Absence of a consolidated state position and corresponding national strategy on this issue;

4. The participation of banks in the organization and development of the green financing and budgeting system is low;

5. Limited representation on international platforms and weak participation in the global agenda;
6. Absence of "soft" regulation and methodological system.

The above means that financial sectors today play a key role not only in attracting capital for green investments, but also in managing climate risks. Therefore, not only the budget system in the country, but also existing banks and financial institutions should help to green the financial sector in cooperation.

In general, "green finance" embodies the following:

- financing of public and private green investments (including pre-production and capital costs) in areas related to greening;
- financing the production of environmental products and services (for example, water management or biodiversity and landscape protection);
- prevention, minimization and compensation of damage to the environment and climate;
- public policy financing (including projects and initiatives that mitigate environmental impacts, damage or operating costs that promote adaptation (eg, tariffs for renewable energy);
- components of the financial system that refer specifically to green investments, such as a green climate fund or financial instruments for green investments (for example, green bonds and structured green funds), including financial relations related to the creation of their special legal, economic and institutional conditions.

It should be noted that in the "brown" economy as we know it, in most cases, budget funds are necessary for effective implementation of important projects and monitoring of development (for example, to cover the costs of human resources, capital investments, etc.). Similarly, the successful



implementation of large-scale green budgeting activities will require exploring a wide range of funding sources, innovations and ideas.

In other words, the concept of green budgeting in regional development should include the formation of a "green local budget" system, which includes components of regional income and expenses. These two components should reflect the concept of green budgeting or a sustainable environment. Green budgeting policy tools include [1]:

1. Voluntary mechanisms, which include measures to develop environmental protection behavior of state enterprises and households;

2. Regulation by the state, which includes the principles of regulation of the state as a legislator;

3. State expenditures, which include tax reductions, preventive and corrective state expenditures, direct transfer payments, investment expenditures for the development of clean technologies;

4. State taxes (state revenues), which include taxes, fees, charges and other state revenues collected for the purpose of environmental protection.

The concept of green budgeting includes the process of financing environmental objectives. The main goal of environmental budgeting is to ensure that environmental problems are given sufficient importance and to reduce negative externalities.

Budgetary priority for environmental management programs should respond to other infrastructure programs so that environmental quality is not degraded. This requires the support of the government, local authorities, senators and the public. The direction of environmental development should be clearly indicated in the development plan. Including:

1. Development of industry with environmental protection;

2. Rational use of water resources and its conservation;

3. Development of residential areas for environmental functions;

4. Development of sustainable facilities and infrastructure;

5. Management and protection of natural resources;

6. Improvement of education and concept of environmental protection.

It should be said that the difficulty and complexity of implementing green budgeting is that the local government cannot fulfill all obligations regarding green budgeting. The local government faces the

following problems in formulating a green budget policy [2]:

First, there is the problem of a limited budget;

Second, lack of commitment of local leaders;

Third, the weakness of other issues of control in the implementation of laws and regulations, particularly in the field of ecology. That is, each local government must undertake to properly implement the principles of sustainable development in the area, while at the same time improving the quality of the environment and maintaining the functions of environmental protection.

## RESEARCH METHODOLOGY

Logical thinking, theoretical analysis, deduction, induction, synthesis and empirical analysis were used in this research. The theoretical views of foreign and domestic scientists on the topic were studied. Information from international organizations is widely used.

## ANALYSIS AND RESULTS

It is precisely this aspect of the matter that today only green budgeting techniques are being adopted by a growing number of countries, and only those countries have the potential to align fiscal policy goals with climate and environmental goals. Because the stability of state finances and environmental stability are inextricably linked.

We believe that other key elements of the budget system, such as fiscal transparency, should also be expanded to reveal the impact of fiscal policy on the environment and climate. Because green budgeting is a growing technique that can be used to broaden the scope of conventional fiscal concepts. One of the main means of its adoption is the establishment of a "green budget", which allows citizens to assess the impact of budget policies on the environment and climate in the tax and expenditure part of the state budget.

This makes it possible to determine the positive and negative effects of fiscal policy. In addition, it provides greater visibility into the amount of resources that countries are devoting to climate and environmental goals, mitigation and adaptation policies, while allowing for an assessment of whether such goals have been achieved. A well-functioning fiscal system, including the adoption of accrual accounting and efficiency program budgeting, plays an important role in this area, along with strong political commitment.

Therefore, there are currently some international platforms that provide technical assistance to countries in the process of green transition, including



the OECD's Paris Partnership on Green Budgeting, the EU's Technical Assistance Facility, the Finance Ministers'

Climate Action Coalition, the IMF to implement green budgeting practices. and climate change (Table 1).

Table 1  
**International platforms supporting countries on green budgeting [3]**

<b>N</b>	<b>Platform name</b>	<b>The main task</b>
1.	The OECD Paris Collaborative on Green Budgeting	The OECD Paris Partnership on Green Budgeting was established in 2017 to help countries develop budget instruments to meet national commitments on climate change and environmental protection. This platform provides technical assistance to coordinate national policy frameworks aimed at reducing greenhouse gas emissions and promoting environmentally sustainable development.
2.	The EU Technical Assistance Instrument	The EU Technical Assistance Facility is a program managed by DG-REFORM that provides training to help Member States develop the technical capacity to develop a Green Budget framework at national level and promotes national Green Budget practices to the European Commission. seeks to coordinate with national recommendations.
3.	The Coalition of Finance Ministers for Climate Action	The Coalition of Finance Ministers on Climate, formed in 2019, unites more than 70 countries. The work of this Coalition is built on the principles of Helsinki, which underpin the commitment of finance ministers to align policy actions with the Paris Agreement; support for capacity building, mutual exchange of knowledge and experience; integrating climate change into macroeconomic management and public finance; aims to mobilize private climate finance and develop a financial sector that recognizes mitigation and adaptation.
4.	The IMF and Climate Change	The IMF and Climate Change support its members in addressing climate change challenges, with fiscal and macroeconomic policies being an important component of appropriate policy responses. It also publishes research on the economic consequences of climate change and provides policy advice on mitigation, adaptation and transition strategies to help them achieve low-carbon, sustainable growth opportunities.

In the current climate change environment, green budgeting is one of the most powerful tools for governments to implement national environmental policies. After all, governments need to take greater responsibility for their environmental commitments and support them in moving towards sustainable and sustainable societies. One way to do this is to incorporate environmental standards into fiscal systems, including annual budget legislation, tax and spending policy evaluations.

A green budget envisages the allocation of a certain amount of government spending to environmental sustainability initiatives in budget legislation. This is aimed at reducing costs in unstable networks.

In turn, green budgeting helps governments achieve their environmental goals. Including:

- assessment of the impact of budget and fiscal policy on the environment;
- assessment of their compliance in fulfilling national and international obligations;

- to contribute to solving global problems of sustainable growth, etc.

It is based on socially fair and ecologically sustainable budget policy. That is, it aims to allocate more money for budget cuts, changes in subsidies, reduction of carbon emissions, clean and renewable energy systems and more. A green budget can respond to the environmental challenges of climate change, develop clean energy sources, and support the nation's land, water, and other natural resources. Green budgeting includes various practices aimed at identifying and evaluating elements of the state budget that affect the country's environmental policy.

Another feature of green budgeting is that all dimensions of sustainable development (ecological balance, social development and economic growth) are fully integrated in a single policy, that is, budget legislation. It means that in order to ensure sustainable development, the government should comprehensively and consistently analyze the income and expenditure.



It is known that with the global concern of the entire world community for a sustainable environment, a number of countries have started the process of green budgeting. This is one area where governments can influence the interaction between people and the environment by not harming the environment through some measures. In this case, it is appropriate for the competent bodies of the government to protect the environment and civil societies dealing with environmental problems to come together to develop green budget programs.

Green budgeting aims to gradually integrate environmental costs and benefits into medium- and long-term financial planning and financial reporting. This approach should be based on the existing public financial system of the country and should take into account the following:

First, based on the experiences of how the green budgeting measures of the world affect the environment, to determine the means (directions) of green budgeting, taking full account of the available opportunities, as well as the qualitative implementation of the specified tasks;

Second, create and communicate a reporting system that facilitates communicating the impact of green budgeting to all stakeholders;

Third, develop an optimal budget system that provides a strong enabling environment for green budgeting. This should include building links between strategic planning and budgeting, focusing on results and working closely with civil society.

In general, the analysis of the green budgeting tool depends on the number of entities involved in the development and implementation of this tool at the national level and its structural structure: national public administrations, international cooperation, associations, foundations and companies.

In our opinion, interactions between national and international actors can help, in particular, to develop and adopt green budgeting tools (for example, training seminars on green budgeting, experience sharing and mutual assistance agreements between intergovernmental organizations and ministries).

These enable governments to successfully implement a green budgeting system aimed at addressing environmental issues and climate change challenges while promoting economic growth.

Today, when it comes to green budgeting, its criteria are considered differently in different countries. Because the geographical location of the countries is different and the environment and natural resources are not the same. Therefore, based on this study, we believe that green budgeting should follow the following general criteria:

1. Balancing the negative external impact on the environment based on the principles of the green budget;
2. Conservation of water resources;
3. Construction of residential or socio-economic facilities taking into account environmental functions;
4. Development of sustainable facilities and infrastructure;
5. Management and protection of natural resources;
6. Effective integration of environment and economy.

In our opinion, adherence to these criteria will serve to increase the effectiveness of actions implemented within the framework of green budgeting.

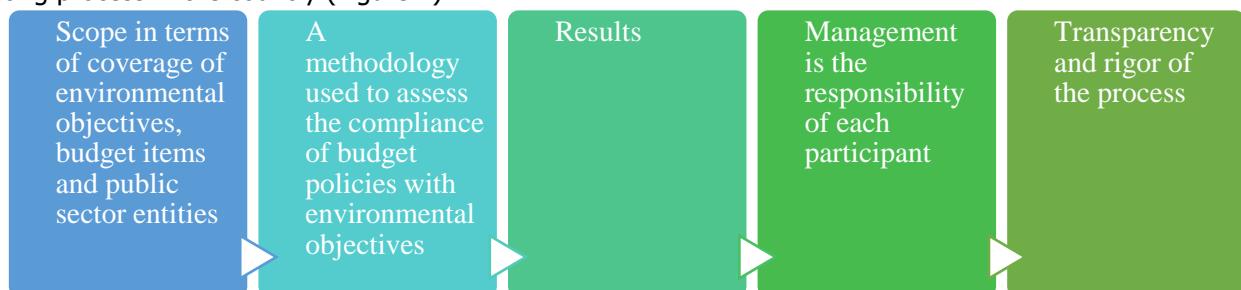
In order for the green budgeting system to satisfy the above criteria, it is appropriate to use the following green budgeting tools (Figure 1).



**Figure 1. Green Budgeting Tools**

**Source:** Compiled by the author based on a summary of scientific sources.

In our opinion, the following five elements represent the main directions for the implementation of the green budgeting process in the country (Figure 2).



**Figure 2. The main directions of implementation of the green budgeting process**

**Source:** Author development

It should also be emphasized that political will is a decisive factor for the success of green budgeting. Although the process of greening is often initiated by officials, it cannot be effectively organized without a government approach. To gain political support, organizations need to be clear about their motivations for implementing green budgeting. The main factors of such an approach should be determined in time. This enables the selection of appropriate practices and empowers the political leadership to endorse and steer the green budgeting agenda.

According to a study by the Organization for Economic Co-operation and Development, green budgeting is based on four key mutually reinforcing principles [5]:

- Strong strategy;

- Creation of experiences and consistency of policies;
- Ensuring accountability and transparency;
- Development of a convenient basis for budget management.

## CONCLUSIONS

In conclusion, green budgeting should also facilitate the identification of eligible projects and cost tracking for green bond financing. Public sector entities issuing these bonds are required to provide investors with distribution reports and budgeting to help ensure compliance with green bond management requirements.

The government should adopt a flexible approach to green budgeting, which allows the scope



and complexity of the process to increase as organizational capacity increases. For example, identifying budget measures that undermine climate and environmental goals. It is also important to provide the right conditions for setting a green budget. Costing criteria should be linked to the country's climate change and environmental goals.

The first step taken by a country implementing green budgeting is often to identify budget elements related to climate change. There are other important aspects to consider. For example, these include activities that directly contribute to reducing emissions or all expenditures that contribute to a low-carbon environmentally sustainable economy.

However, this process alone does not provide sufficient information to determine whether the level of spending is adequate. However, it is an important first step in finding, encouraging and allowing the public to see how budget spending is directed towards combating climate change and promoting sustainability.

In turn, this helps create a comprehensive picture of how green budgeting impacts climate and the environment. This then helps inform budget planning and allocation decisions, directly linking objectives to spending plans. This allows for the establishment of links between different programs, which encourages the creation of opportunities for better coordination of green budget funds.

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