

**I4CE**

INSTITUTE FOR  
CLIMATE  
ECONOMICS

Unité de la Commission Européenne  
de l'Agence Française de Développement

# CSOs discussions on Green Budgeting

2022-05-03



# Icebreaker on your expectations

*5 min*

# Link to the Klaxoon session

Christoph,  
Germanwatch  
(DE), Learn more  
about GBing +  
best practices of  
green budgeting

Holger  
FOES / Green  
Budget Germany  
DE  
Networking, new  
intl. experiences  
on GB

Matti  
NABU  
DE  
learning about  
green budgeting in  
other countries

Sebastien Postic  
I4CE - FR

Understanding  
better where EU  
CSOs stand in  
Green Budgeting

Ioli Christopoulou  
The Green Tank  
Greece  
understanding  
better the potential  
for collaboration  
on GB

Sofia  
Systemic, Portugal  
To better  
understand how I  
can introduce  
green budget in  
Portugal

András  
Clean Air Action  
Group  
Hungary  
Learn about new  
ideas and about  
other  
organisations'  
activities on Green  
Budgeting

Markus  
Greenpeace  
Belgium  
learning about  
what is there and  
what is possible

Marion  
I4CE  
FR  
going further with  
other CSOs on GB

Emeline (CAN  
FRANCE) to share  
our experience  
and work on GB

Olivier  
RAC - France  
learn more about  
green budgeting  
and the involment  
of CSO

Inês  
Portugal  
Learn more about  
current green  
budgeting best  
practices

Baiba (Latvian  
Fund for Nature)  
learn about other  
countries'  
experience on  
green budgeting

Martina, CDE from  
Czechia, to learn  
about green  
budgeting

Jonas  
(Umanotera) -  
Learn more about  
how other NGOs  
work with green  
budgeting

Michelle, Social  
Justice Ireland - I  
hope to learn what  
other CSOs are  
doing to engage  
with green  
budgeting and  
experiences with  
policy

Marie-Noelle,  
FOES,  
International  
experience and  
potential for  
German budget  
policy

Please add your name, organization, country and your expectation for the session

Nicolas Jarraud  
The Cyprus  
Institute  
SDSN Cyprus  
Learn about Green  
Budgeting  
Advocacy

Katalin  
Clean Air Action  
Group,  
Hungary  
learn about other  
CSO's  
experiences

Joachim Roth IISD  
Better  
understanding how  
green budgeting  
works in different  
contexts and how  
it can be applied  
by CSOs

Marija  
Institute of Public  
Finance  
CRO  
How likely is to  
introduce GB in  
Croatia?

Stefanie (Climate  
& Company)  
- learning about  
Green Budgeting  
in other countries  
- role of CSOs for  
green budgeting  
- understanding of  
different definitions  
and perspectives  
on green  
budgeting  
practices

# Today's discussion

14:10	<b>Green Budgeting in Europe: definition and current trends</b> <i>I4CE</i>		20 min
14:30	<b>Concrete case study:</b> Slovenian experience on green budgeting <i>Jonas Sonnenschein - Umanotera</i>		10 min
14:40	<b>Concrete case study:</b> what is the French green budget and how I4CE reacted <i>Sébastien Postic - I4CE</i>		10 min
14:50	<b>Concrete case study:</b> Tax expenditures and green budgeting analysis <i>Emeline Notari - Climate Action Network – France (Réseau Action Climat)</i>		10 min
Coffee Break (5 min)			
15:05	<b>Concrete case study:</b> For a more sustainable and readable budget policy in Luxembourg <i>Muriel Bouchet - Idea Foundation</i>		10 min
15:15	<b>Cross fertilization session:</b> How to act in your country? <i>Moderated by I4CE</i>		20 min
15:35	<b>Group discussion #2 – Perspectives for future collaboration?</b> <i>Moderated by I4CE</i>		15 min
15:50	<b>Beyond climate budgeting - Presentation of a further social assessment</b> <i>Sébastien Postic- I4CE</i>		10 min
16:00_	Thanks for participation and informal discussions		



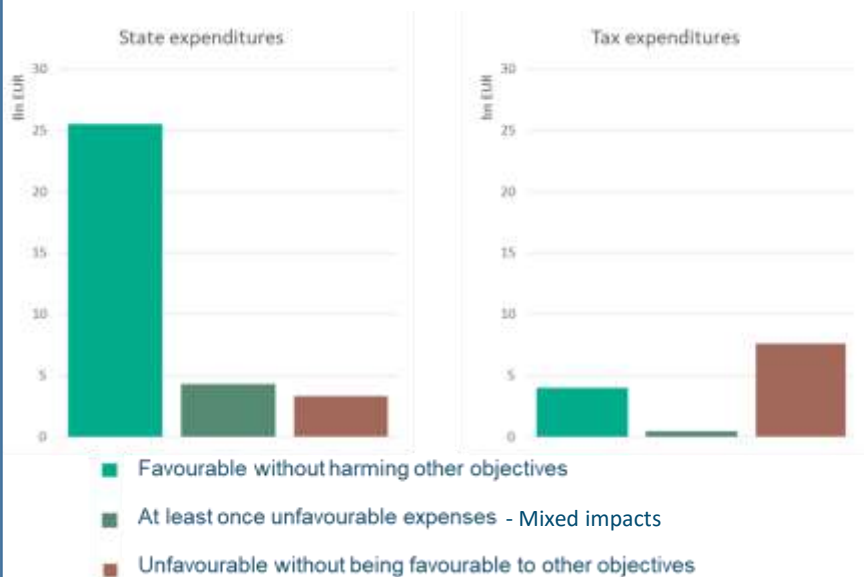
# What is green budgeting?

# What is a green budgeting exercise?

## Green budgeting:

- Identify **revenue** and **expenditure** that **contribute/are detrimental** to the achievement of **environmental objectives**,
- Quantify associated **monetary volumes**

## French example



Source : [Rapport sur l'impact environnemental du budget de l'Etat, PLF2022](#)

## Green budgeting enables to...



**Identify and understand**  
which expenditure is beneficial for the climate, and which has a negative impact



**Assess the alignment**  
of expenditure with climate goals



**Analyse opportunities**  
for redirecting expenditure in alignment with climate goals



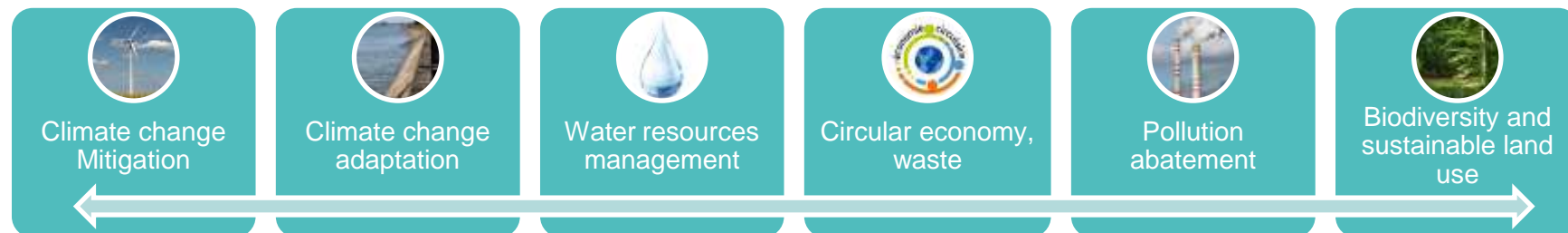
**Monitor developments**  
year on year

@I4CE

# Items with mixed impact

A budgetary item may be considered with a mixed impact if it has **a positive effect on one or several environmental objective(s) and a negative effect on another one or several others**

*Examples: based on the 6 environmental dimensions in the French green budget*



## Rail new lines : mixed impact

*In the medium term, these expenditures reduce the carbon footprint of mobility and transport, but their construction results in waste in the short term and land take that has a negative impact on biodiversity*



## Air transport: Unfavourable

*Investment expenditures funded out of the specific budget for "Air Traffic Control and Operations" and every expenditure promoting air transport are tagged as unfavourable for the Climate Mitigation and Climate Adaptation Objectives, as well as the Pollution Objective*



Source : Ministère de l'Economie, des Finances et de la Relance, 2021

# Why doing it?

## Objectives:

Inform  
budgetary  
decision-making



Dialogues between budget  
& actions on the environment



Transparency  
and citizens' demand

### GREEN BUDGETING

Increase the  
consistency of  
public action



Reporting to get  
financial supports (green  
bonds, UNFCCC, ...)

Support further analyses  
of climate  
effectiveness of  
public policies

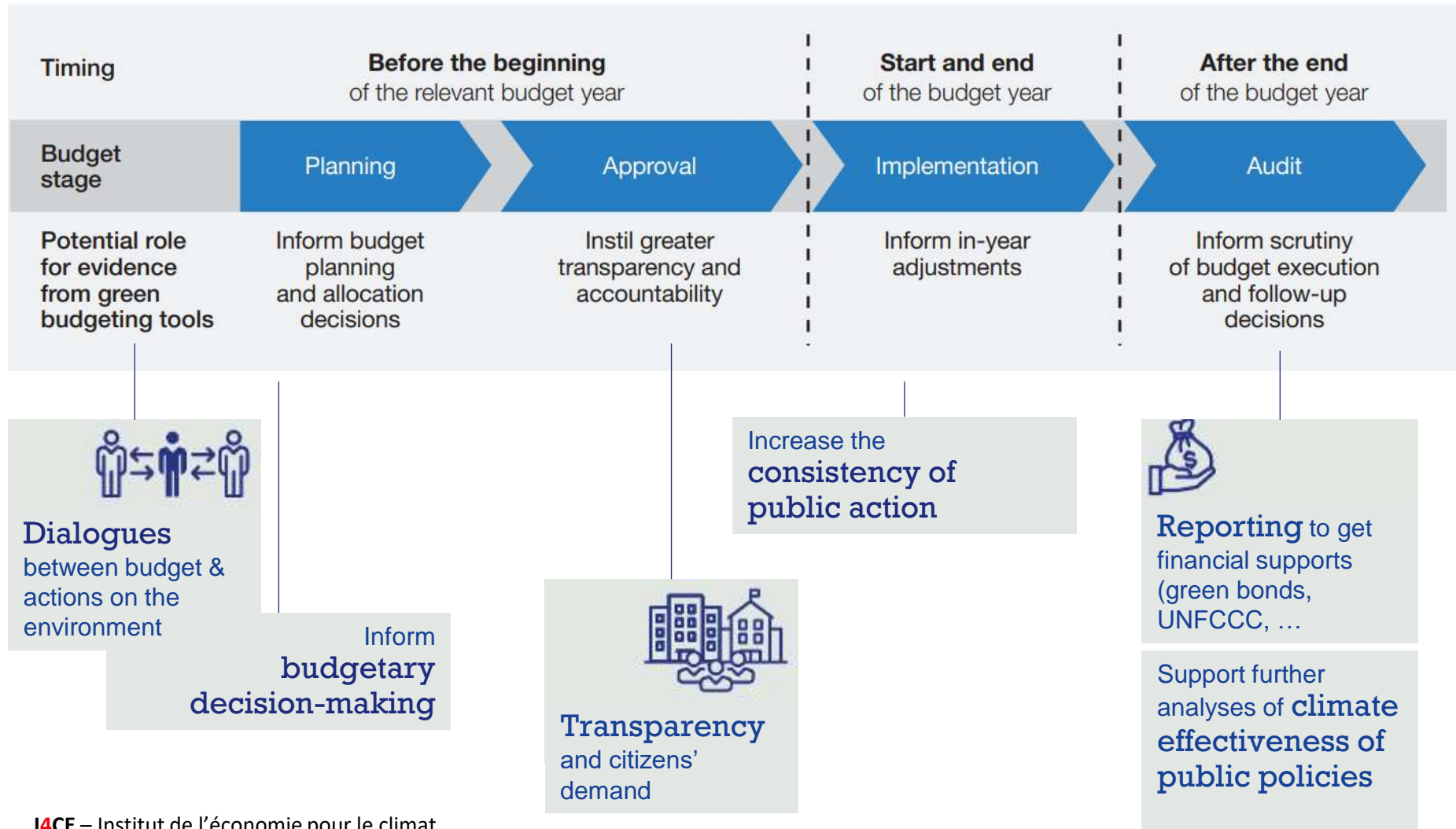


The communication objective  
should not influence the assessment  
nor its analysis



# A green budgeting exercise can serve different objectives based on its integration in the national budgetary process

Source: [I4CE \(2021\)](#) based on OECD (2021)



# European context and development of green budgeting practices

2017

Launch of the  
*Paris collaborative on Green Budgeting*



2020

30% of the **EU budget** should be spent to fight climate change, with specific attention to biodiversity protection and gender-related issues.



2021

The **EU RRF (Recovery and Resilience Facility)** asked for **at least 37%** of each EU Member States plan to be climate spending. The methodology is based on the [Rio markers system](#) with some elements from the [EU Taxonomy Regulation](#) and the DNSH principle.



Source: [Recovery and Resilience Scoreboard](#)

2022

23 EU Member States volunteered to be trained on GB  
11 EU Member States are doing a form of green budgeting



Adoption of the **EU Taxonomy** ([first delegated act](#)). It defines green economic activities which **can be useful for designing a green budget methodology**.

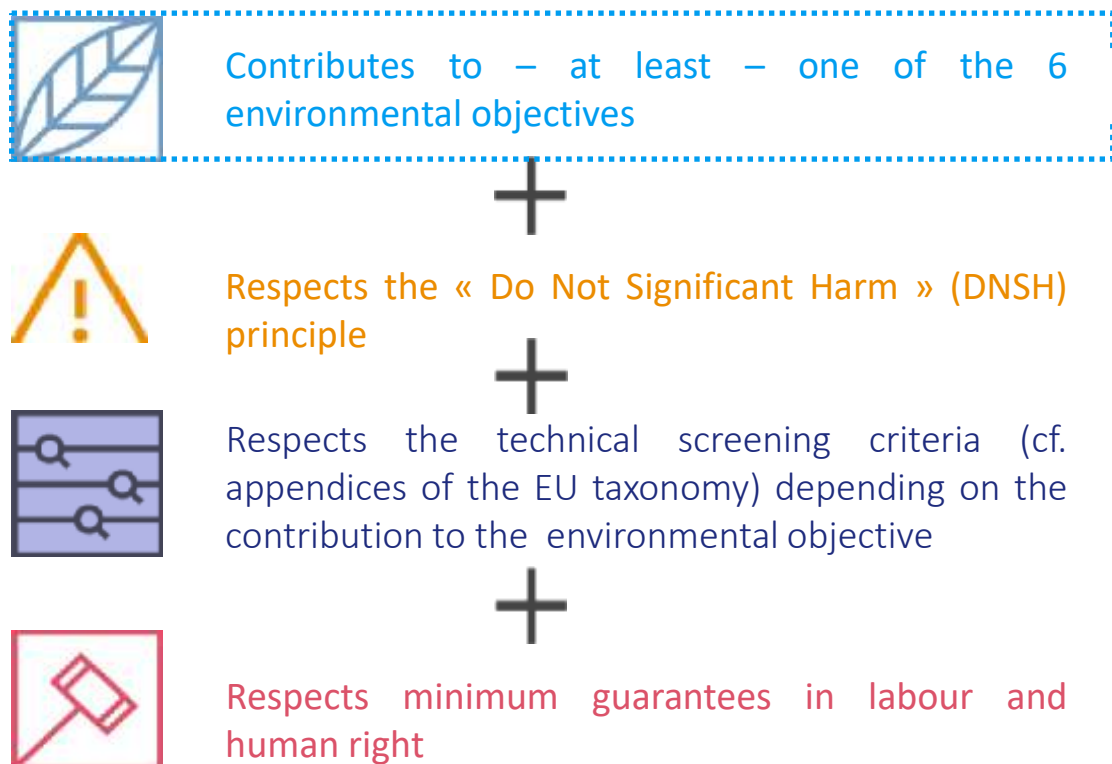


July, 11<sup>th</sup>  
2022

Adoption (to be confirmed) of the [complementary delegated act](#) of the **EU Taxonomy on gas and nuclear**.

# The EU taxonomy: defining sustainable activities for investors (and companies)

An activity can be considered as sustainable if it:



Source: [EU Taxonomy](#)



	Forest		Energy		Technologies & communication
	Industry/ Manufacturing		Water, waste		Buildings

# The EU Commission: Green budgeting reference framework

*Climate?  
Other environmental  
dimensions?*

*Green only?  
Brown?*

*State budget?  
Local budget?*

*Expenditures?  
Revenues?  
Tax expenditures?*

Coverage

*Light tagging?*

The European Commission promotes national approaches rather than “one-size fits all”.

Accountability

*Purpose?*

*Special task force?  
Who leads the  
reporting?*

Governance

Deliverables

*GB report on  
budgetary plans?  
executed budgets?  
multi-annual plans?  
Recovery plan?*



# EU Framework: Level 1

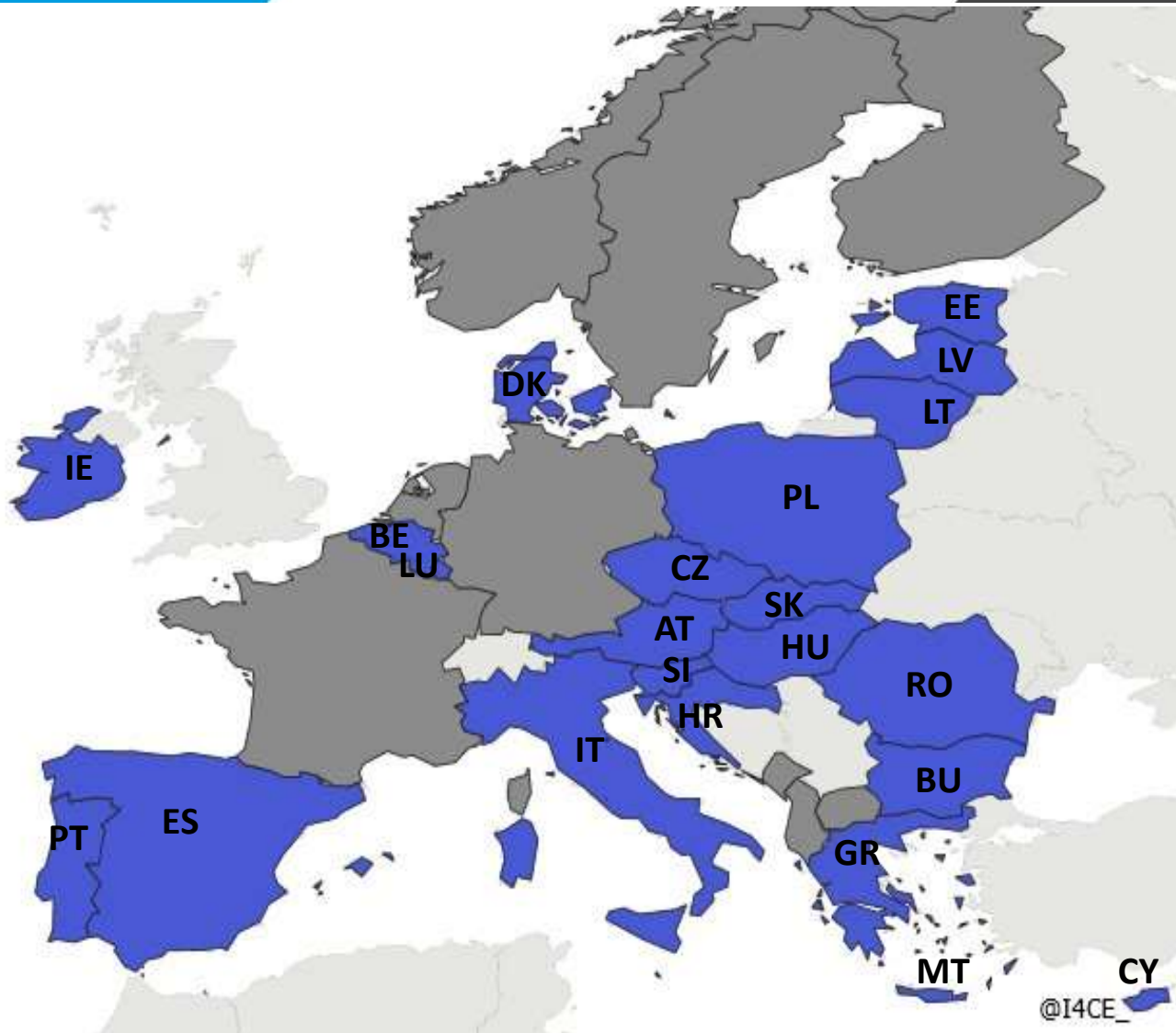
# Level 2

Coverage		
Env. objectives	<ul style="list-style-type: none"> <li>Climate</li> </ul>	<ul style="list-style-type: none"> <li>6 env. objectives</li> </ul>
Budget items	<ul style="list-style-type: none"> <li>Green exp. and revenue</li> </ul>	<ul style="list-style-type: none"> <li>Green &amp; brown</li> <li>Exp., revenue, tax exp</li> </ul>
General govt	<ul style="list-style-type: none"> <li>Central govt only</li> </ul>	<ul style="list-style-type: none"> <li>Central / subnational govt</li> <li>State-owned enterprises</li> </ul>
Methodology	<ul style="list-style-type: none"> <li>Light tagging</li> </ul>	<ul style="list-style-type: none"> <li>Comprehensive tagging</li> <li>Impact assessment</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>Pres in annual budget</li> <li>Pres in execution report</li> </ul>	<ul style="list-style-type: none"> <li>Annual budget annex</li> <li>Multi-annual plan</li> <li>Extra budgetary entities</li> </ul>
Governance	<ul style="list-style-type: none"> <li>Ad hoc Task force</li> </ul>	<ul style="list-style-type: none"> <li>Permanent central structure</li> <li>Budget contacts in ministries</li> </ul>
Transparency Accountability	<ul style="list-style-type: none"> <li>All deliverables public</li> <li>Evaluation of methodology</li> </ul>	<ul style="list-style-type: none"> <li>All deliverables public</li> <li>Evaluation of deliverables</li> <li>Parliamentary discussion</li> </ul>

# Building capacity of EU Member States on green budgeting

- Project in collaboration with Expertise France, funded by the EU Commission (DG REFORM),
- 3 modules:
  - Module 1: An **introduction to green budgeting** (*completed*)
  - **Country-specific** modules :
    - Module 2: A training on the **methodological challenges** of green budgeting based on a country-specific case study (*one 2-day training per country, in progress*)
    - Module 3: A guided self-diagnostic of the **national green budgeting framework** (*one 2-day training per country, forthcoming*)
- Trainings aimed at the representatives of the **Finance and the Environment Ministries**
- A large number of MS participate in the project – 23 MS for Module 2

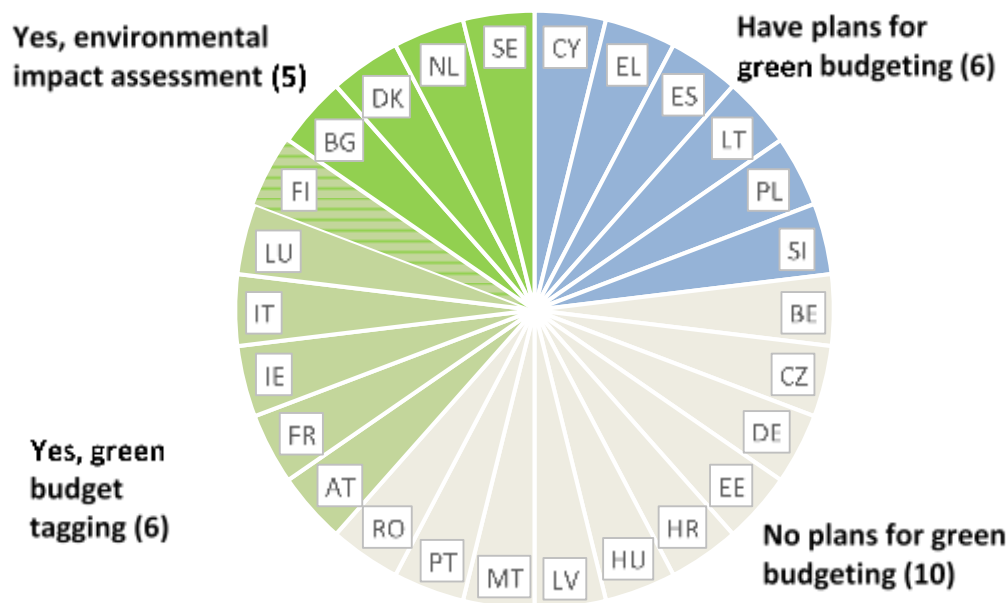
# Green Budget Training for European Member States



**Volunteered for  
Training**

# Green Budgeting practices in 2021

... across responding EU Member States



\*Finland is performing both green budget tagging and environmental impact assessments.

**Source:** 2021 European Commission survey on green budgeting [Green Budgeting Practices in the EU: A First Review](#)



# CSOs play an essential role in the implementation of green budgeting





## NGOs, think tanks, and members of the civil society can:

- **Demand** or encourage **governments to conduct green budgeting** exercises;
- **Assess** the quality of national **green budgeting** exercise;
- **Demand higher quality** green budgeting, reporting, dispersion of information;
- Ensure green budgeting exercises are **not used for green washing**, are not used as reason not to further engage in green transition;
- Incorporate green budgeting results into **national budget deliberations and public debate**;
- **Encourage changes in governmental approach to climate change** using green budgeting results as a springboard.

## Elements that need external scrutiny:

- **Implementation**: scope, accuracy, consistency, recurrence, transparency;
- **Communication**: not overstating achievements, diffusion across government bodies;
- **Use**: guide public policies and actions, budget to become greener over the years.

# National climate councils

Country	Name	Function	Organisation	
Denmark	Professor Peter Møllgaard	Chair	Klimarådet [Council on Climate Change]	
Finland	Markku Ollikainen	Chair	Suomen ilmastopaneeli [The Finnish Climate Change Panel]	
France	Professor Corinne Le Quéré	Chair	Haut Conseil pour le Climat [High Council on Climate]	
Greece	Professor Costas Synolakis	Chair	Ειδική Επιστημονική Επιτροπή για την Αντιμετώπιση της Κλιματικής Αλλαγής [National Scientific Climate Change Council]	
Ireland	Marie Donnelly	Chair	An Chomhairle Chomhairleach um Athrú Aeráide [Climate Change Advisory Council]	
Sweden	Johan Kuypenstierna	Chair	Klimatpolitiska Rådet [Climate Policy Council]	
Sweden	Lisbeth Schultze	Chair	Nationella expertrådet för klimatanpassning [Expert Council on Climate Adaptation]	
Iceland	Halldór Thorgeirsson	Chair	Loftslagsráð [Climate Council]	
Switzerland	Dr Kathy Riklin	/	Organe consultatif sur les changements climatiques/Beratendes Organ für Fragen der Klimaänderung [Advisory Body on Climate Change]	
United Kingdom	Lord Deben	Chair	Climate Change Committee	
United Kingdom	Baroness Brown	Chair	Climate Change Adaptation Committee	

Sources: <https://climatecouncilsnetwork.org/> and [Climate Governance Systems in Europe: the role of national advisory bodies](#)

# Useful institutional resources

- [European commission webpage on green budgeting](#) with a [database](#) of all member states and a [study](#) on green budgeting experiences in selected Member States
- [OECD webpage on Paris collaborative on green budgeting](#)
- <https://www.financeministersforclimate.org/>
- [Taxonomy Regulation](#)

# Useful material



[\(CEPAL, 2015\)](#)



[\(IADB, 2021\)](#)



[\(Pacific Islands Forum Secretariat, 2019\)](#)



[financeministersforclimate.org](http://financeministersforclimate.org)



[\(IACE, 2019\)](#)



[\(UNDP, 2019\)](#)



[\(World Bank, 2021\)](#)



[\(BIOFIN, 2018\)](#)



[\(GFLAC - Colombia, 2016\)](#)



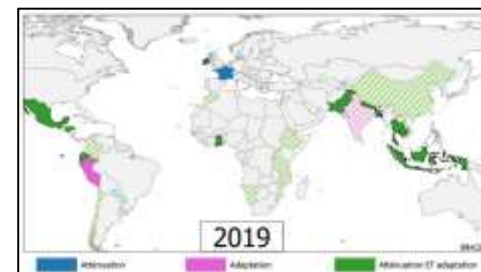
[\(IACE, 2021\)](#)



[\(France, 2020\)](#)



[\(OECD, 2021\)](#)



[\(ID4D, 2020\)](#)

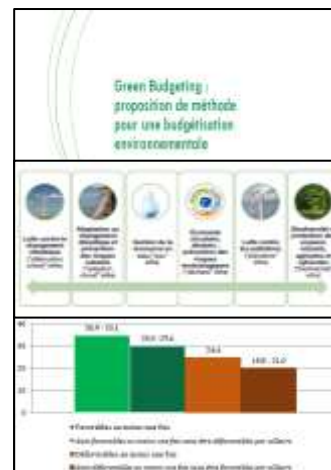
# Useful material - Continued



[\*\(UNDP, 2018\)\*](#)



[\*\(climatefinance-developmenteffectiveness.org\)\*](#)



[\*\(France, 2019\)\*](#)



[\*\(PEFA, 2020\)\*](#)



[\*\(UNDP, 2015\)\*](#)



[\*\(UNDP, 2016\)\*](#)



[\*\(OECD, 2021\)\*](#)



[\*oecd.org\*](#)



[\*\(EU, 2021\)\*](#)



[\*\(I4CE, 2021\)\*](#)

# Concrete case study: Slovenian experience

*Dr. Jonas Sonnenschein, Project manager*







# The Slovenian experience with green budgeting

*dr. Jonas Sonnenschein – [jonas@umanotera.org](mailto:jonas@umanotera.org)*

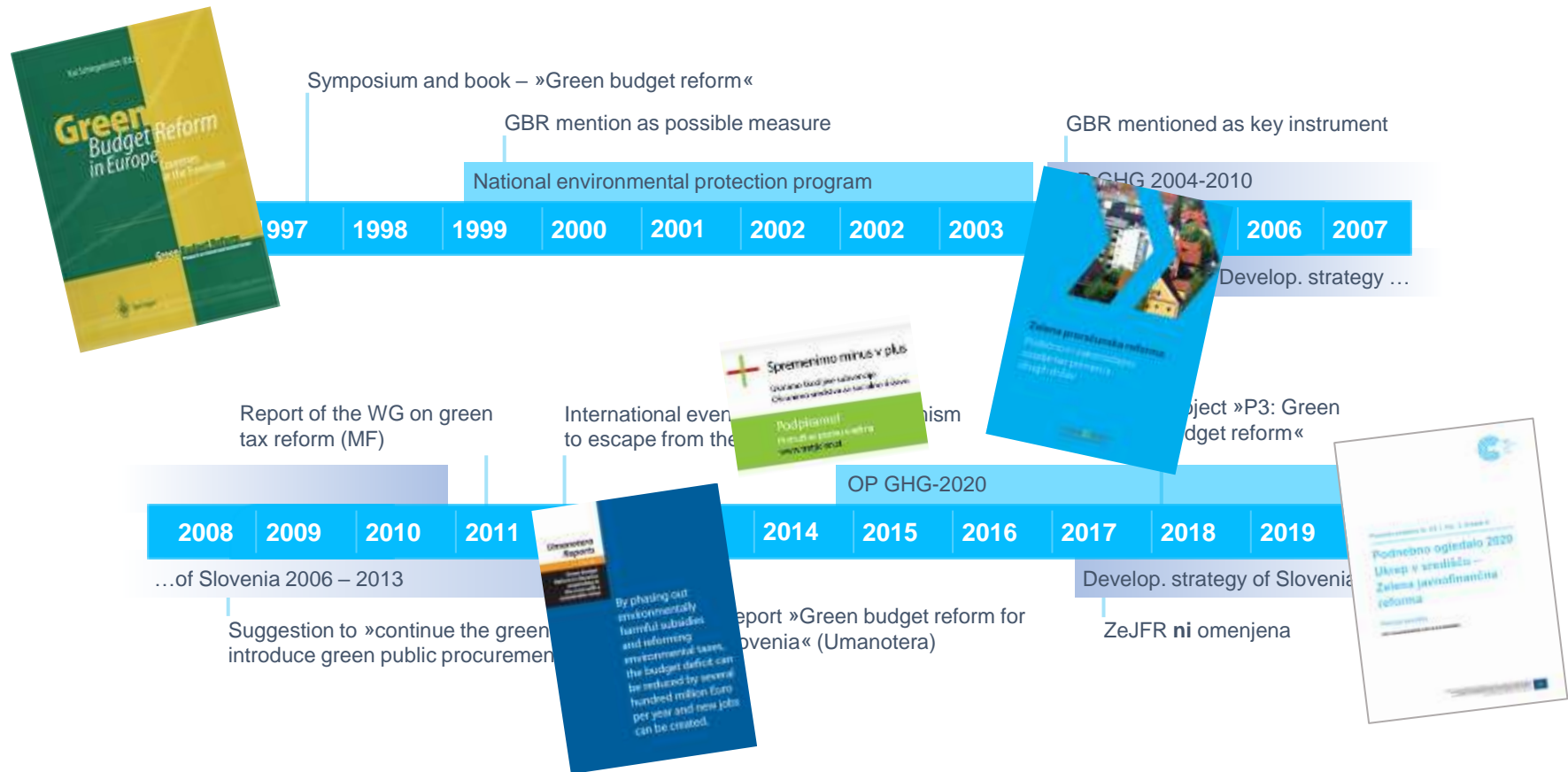
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by the German Bundestag



# 25 years of green budgeting in SLO







# The GBR focus shifted over time

**1990s & 2000s**   Ecological tax reform

**2010s**                      EHSs + budget consolidation

**early 2020s**              Green spending

**late 2020s**              Consolidation again?



# Green budgeting & consolidation



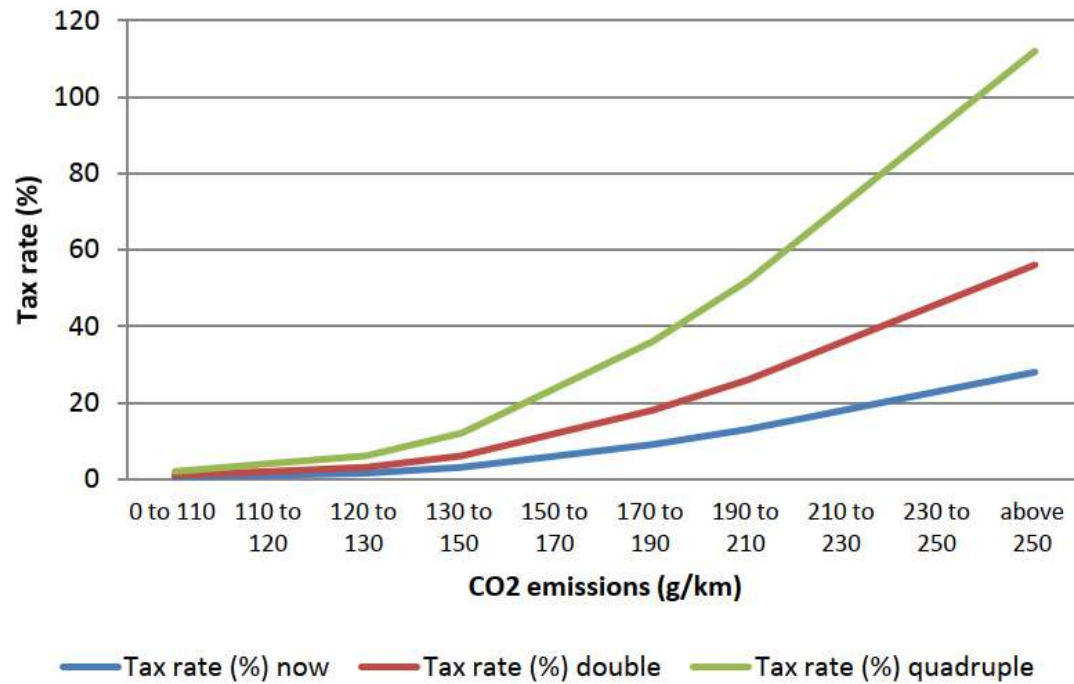


Table 1: Environmentally Harmful Subsidies by sector<sup>4</sup>

Subsidies 2011 (in million EUR)	On budget	Off budget	Total
Energy	176	20	196
Transport	281	0	281
Agriculture	74.5	0	74.5
<b>TOTAL</b>	<b>503</b>	<b>20</b>	<b>&gt;523</b>



Figure 7: Motor vehicle tax rates (petrol cars)





# Campaign 2013

## “Let’s turn the minus into a plus”



Spremenimo minus v plus

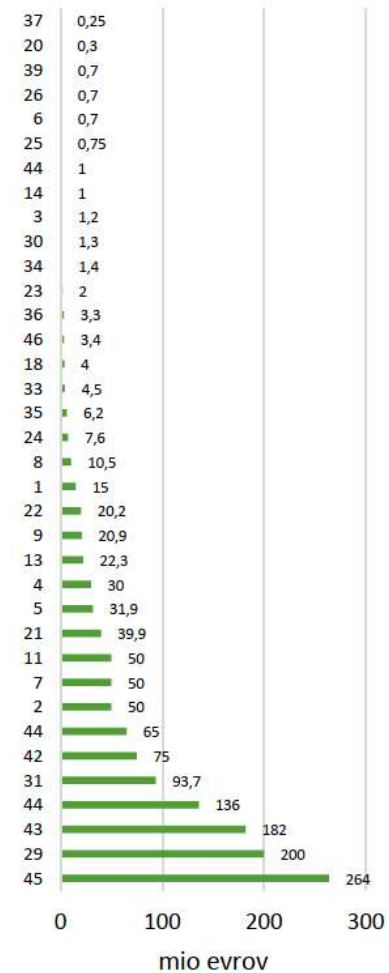
Ukinimo škodljive subvencije.  
Ohranimo sredstva za socialno državo.





# Government project P3

Identification of the **budget effect** of 46 environmentally relevant (good and bad) support instruments





# **P3 project:**

## **Classification of support instruments**

- by impact categories (air, soil, water)
- by impact direction
  - lowering environmental damages
  - potentially lowering env'l damages
  - Worsening environmental damages
- by sector (fossil fuels, electricity, transport, agriculture, business)



# Green budgeting in the 2020s

## EU funds

- Green Recovery Tracker ([Slovenia](#))
- EU Cash Awards (tag [Slovenia](#))
- Reaching for a green recovery ([CAN EU + Bankwatch report](#))

## National budget

- Repetition of the “P3” screening exercise (?)
- I4CE capacity building workshop (January 2022)
- **New government!!!** (green bonds, new institutions)





# Barriers towards green budgeting

## Knowledge

- Lack of “common language in cross-sectoral work”
- Lack of specific climate measures in the context of GBR

## Institutions

- Lack of continuity in cross-sectoral work
- Self-censorship in ministries
- Lack of long-term institutional frame hinders design of policies

## Political economy

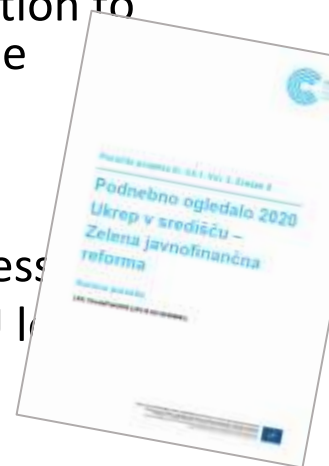
- Lack of political will and leadership

## Structural factors

- Short government and budget cycles vs. long-term climate action
- Much of the budget is locked in to fixed expenditure (social transfers, health care, education etc.)
- Excise duties’ main function to generate budget revenue

## EU/int’l factors

- Tax competition
- Economic competitiveness
- Unanimous voting at EU level





UMAN  TERA

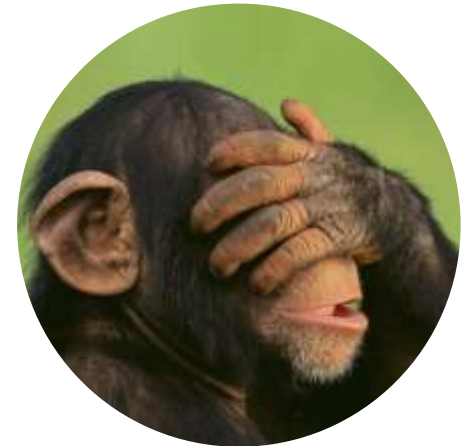
# Thank you for your attention!

**dr. Jonas Sonnenschein**

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Tel.: +386 (0)30 767 458

[www.umanotera.org](http://www.umanotera.org)



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European  
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by the German Bundestag

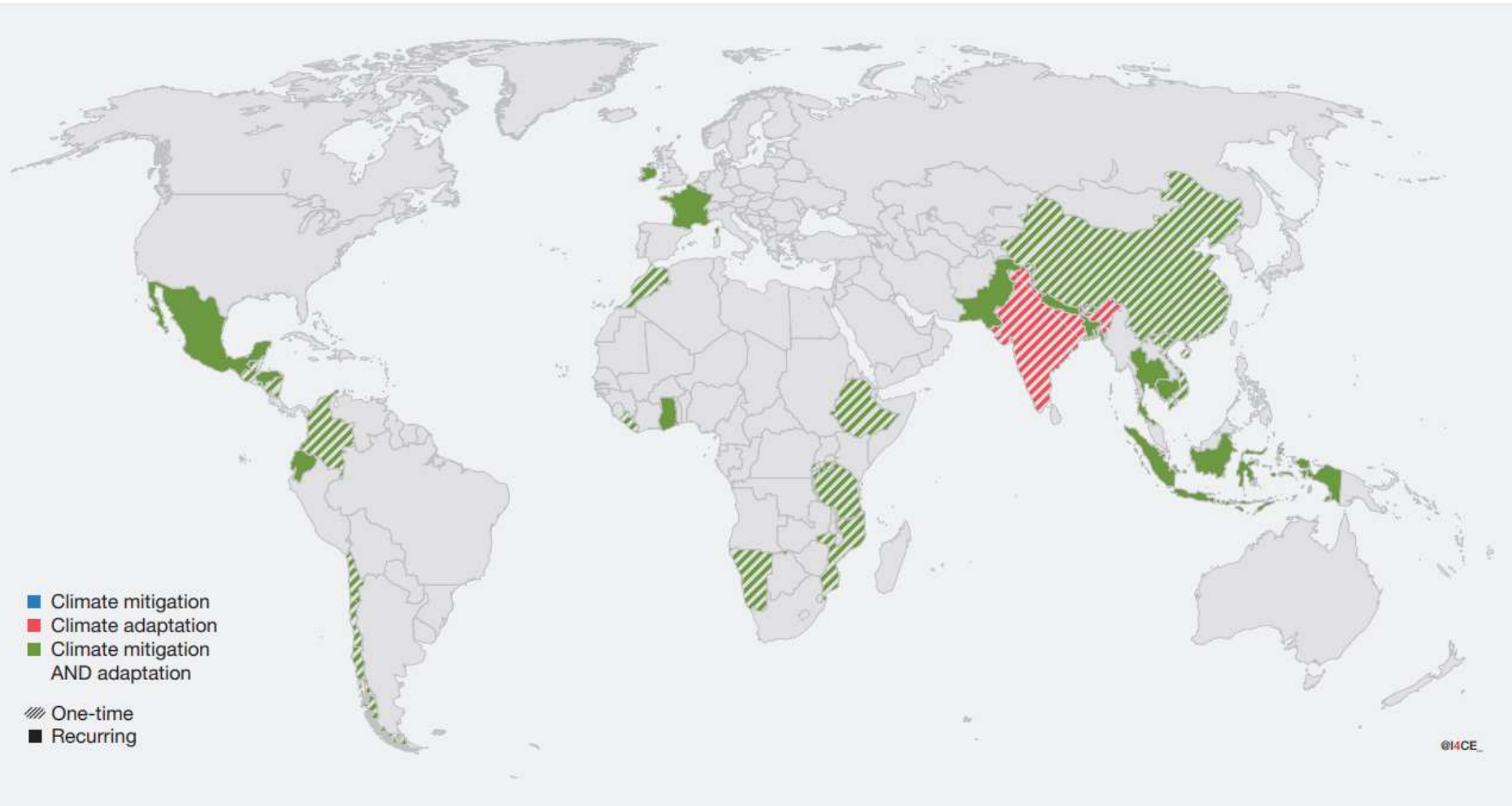


# Concrete case study: the French story

*Sébastien Postic, Project manager*



# Decades of experience with climate budget tagging



Source: [I4CE \(2021\)](#)

- Since 2008 in Asia
- 50 countries and more to come, specially in the EU at a local and national level

# The Yellow Vests catalyst...

Launch of the  
*Paris collaborative on  
Green Budgeting*



2017

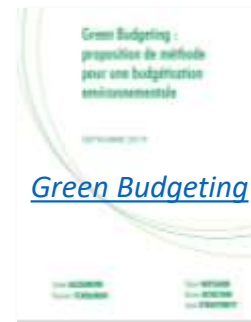
2018

2019



April 2019:  
MTES and MEF  
launched joint  
taskforce on GB  
methodology

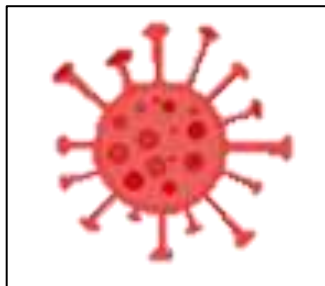
September 2019:  
Report from  
taskforce on GB  
methodology



November 2019:  
Energy Climate  
Law laid out  
**commitment to  
reach net-zero by  
2050**

Draft budget law:  
**obligation to  
present a report  
on the  
environmental  
impact of the  
Stat's budget**

# ... and the post-Covid needs



September 2020:

- *France's 1<sup>st</sup> Green Budget (for 2021 bill)*

September 2021:

*2<sup>nd</sup> Green Budget (for 2022 bill)*

2020

2021

## **Recovery plan:**

- 0 brown spending
- 30% climate-friendly



[Report on environmental impacts of the 2021 State budget](#)



  
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DES FINANCES  
ET DE LA RELANCE  
*Liberté  
Égalité  
Fraternité*



[Report on environmental impacts of the 2022 State budget](#)

  
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Fraternité*



# France's GBT seen from I4CE

Launch of the  
Paris collaborative on  
Green Budgeting



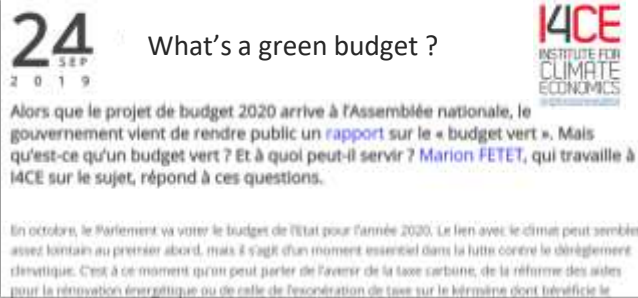
360-degree climate  
assessment of France's  
State budget



2017

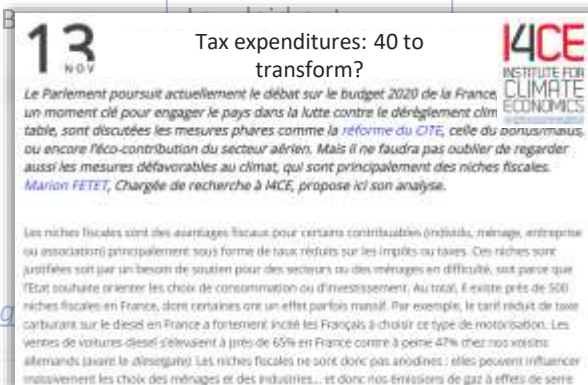
2018

2019



September 2019:  
Report from  
Taskforce on GB  
Methodology

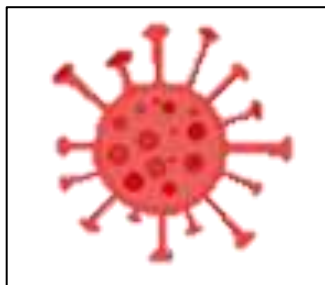
November 2019:  
Energy Climate



Green Budgeting

environmental  
impact of the  
Stat's budget

# France's GBT sector



2020

**08 OCT 2020** France's Green Budget: What's Next? **I4CE** INSTITUTE FOR CLIMATE ECONOMICS

#I4CExpertViewPoint

A few days after the publication of France's 2021 budget bill, and before any debates in parliament, the government released an environmental assessment of it. This assessment, often referred to as the "green budget", is an important step forward for the transparency of public action, according to **Marion Feret** and **Sébastien Postic** from I4CE. Nevertheless, they suggest improvements to be made to the scope of the budget analyzed or to the classification of certain expenditures. And they call for making the green budget a real tool for greening the budget.

**A new step for budget transparency**

France is not the first country to take an interest in the environmental impacts of its budget, as I4CE pointed out in a [previous post](#) on the experiments carried out in this area for nearly fifteen years in some fifty countries. But France stands out by integrating spending that is damaging to the environment and by analyzing not one but six environmental dimensions: climate mitigation and adaptation, land use,

**12 OCT 2021** Environmental Budget Assessment: Let's complement them **I4CE** INSTITUTE FOR CLIMATE ECONOMICS

The French government has just published the environmental budget assessment, or 'Budget' of its 2022 draft budget. **Morgane Nicol** of I4CE and **Michel Colombier** of IDDRI offer insights into these exercises, which are becoming more popular in many countries and local authorities. They highlight that the environmental budget assessment does not dispense with an Ecological Transition Strategy. Instead, it must be used to draw up a financing plan for this transition.

Environmental Budget Assessments have become increasingly popular. **France, Ireland, Nepal and Ecuador** and some more 45 countries have all conducted a **climate assessment of their budgets**. Local authorities in France have already published the results of their respective exercises. Lille and Strasbourg, the Bourg-en-Bresse community, the Bettun and Montmorot communes, the Mayenne Department, and Occitanie are all among them.

**The publication of an environmental budget assessment : one piece of the puzzle**

2021

**ID4D** Sustainable Development Goals **I4CE** INSTITUTE FOR CLIMATE ECONOMICS

**"Green budgeting": paths to creating real added value**

Few green budgeting initiatives have led to concrete reforms or revisions of priority investments. How can we move from simple theoretical exercises to concrete action for the environment?

**Oskar Langner** **Sébastien Postic** **Aurélien Dubouy**

**I4CE** INSTITUTE FOR CLIMATE ECONOMICS

**LOCAL BUDGETS CLIMATE ASSESSMENT: OBJECTIVES & APPROACH**

[Methodology for Climate assessment of local authority budgets](#)



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**The Good, the Bad and the Unclear : Environmental Budget Tagging**

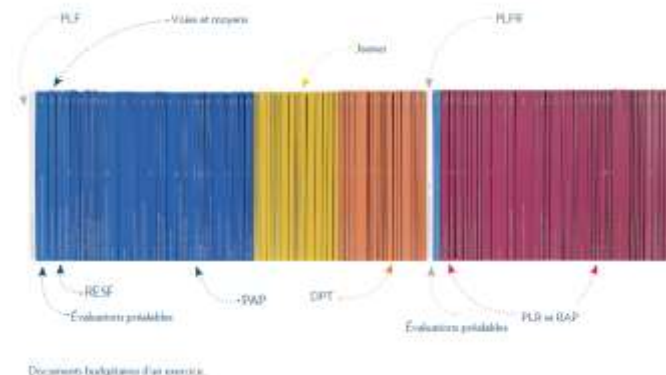
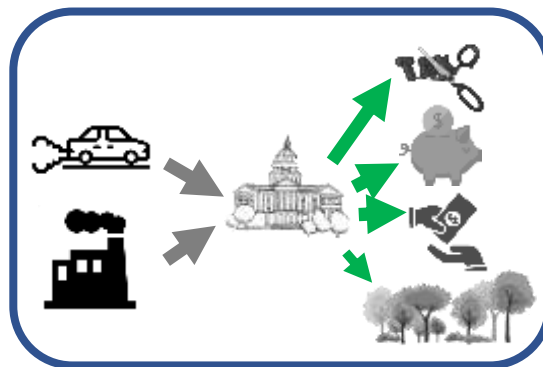
From mainstreaming national effort to reforming budgetary instruments

[The Good, the Bad and the Unclear : Environmental Budget Tagging](#)

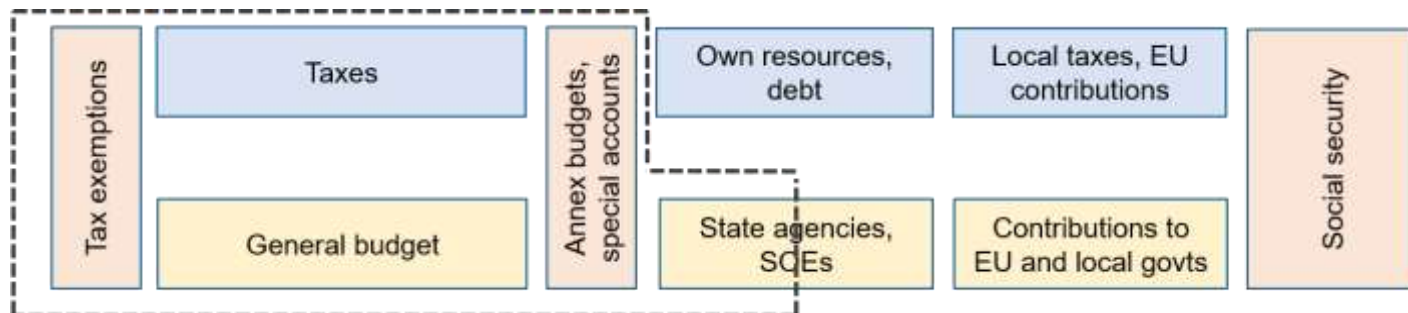


# France's Green Budget in a nutshell

Why?



What?



So what?

250 climate-related measures...

Totalling nearly EUR 100bn...

Mostly favourable...

And mostly unintended.

# EUR 53bn taxes – Mostly climate-friendly

## Overview: 25 climate-related taxes

**EUR 10bn with a climate purpose**

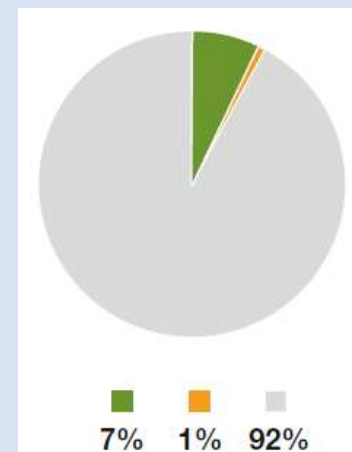
*Carbon component of various taxes*

**EUR 33bn with climate co-benefits**

*Energy & car taxes*

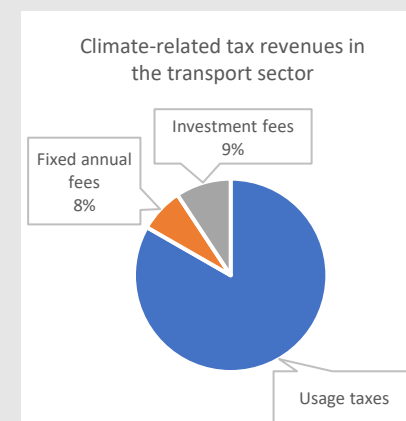
**EUR 10bn with ambiguous effects**

*Electricity use & infrastructure*

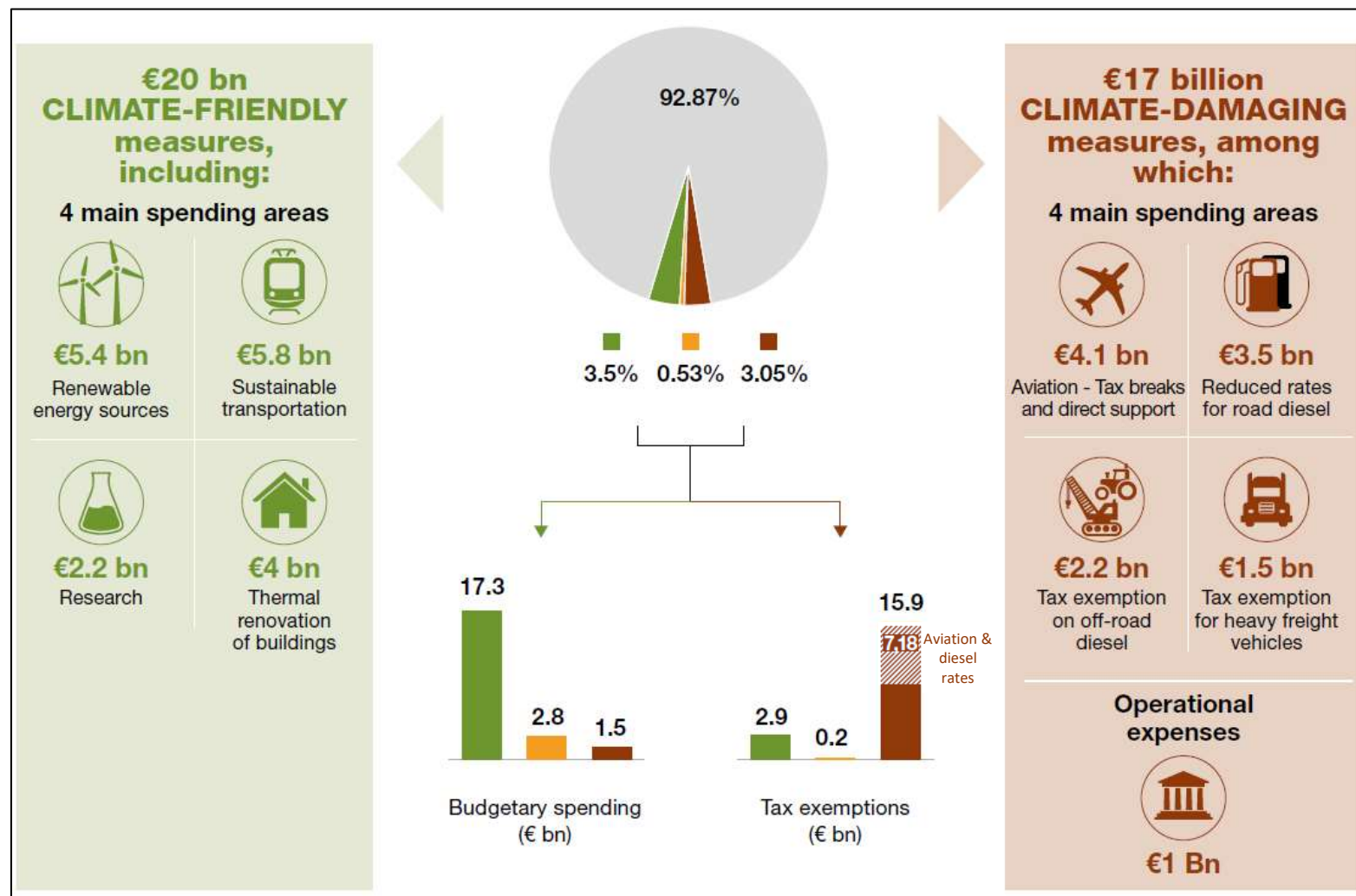


## Transport taxes: green but inefficient

- Very few taxes when buying the car
- High usage taxes
- Revenue-raising, not behavioural change
- Planting the seeds for the yellow vests...



# French example | EUR 40bn Spending



# Spending: selected insights

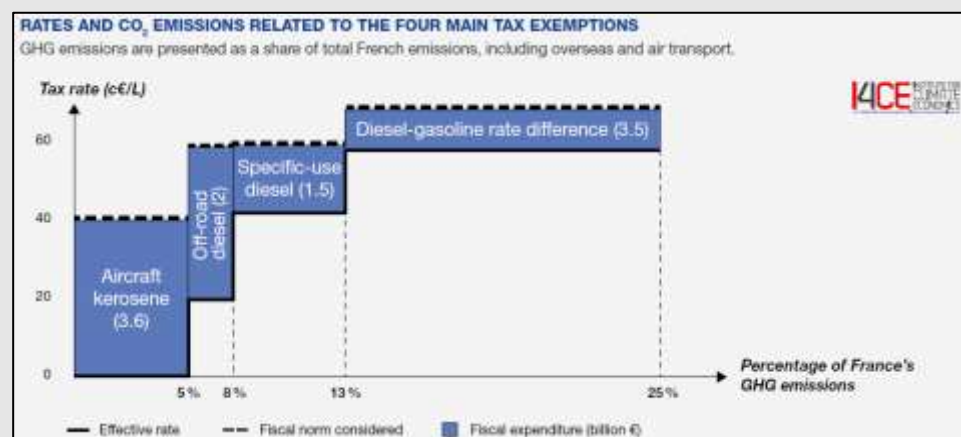
## Operating expenses matter

- 15% of the budget
- Highly scattered, hard to monitor
- High share of climate-relevant spending (transport, heating)
- Need for exemplarity e.g. when passing a carbon tax
- A matter of change management

BUILDING	
New buildings (mostly housing)	1,006
Building renovation (500 million in housing)	780
Energy consumption in buildings	275
TRAVEL	
Travel expenses, fuel expenses (excluding operational fuel)	166
Operational fuel, aircraft fuel	458
Train compensation to SNCF	170
Investment in the vehicle fleet	17
<b>TOTAL</b>	<b>2,872</b>

## Variety of tax niches

- Most of anti-climate action is here
- Various reasons, tax bases, and rates
- Hard to reform
- Need at least better monitoring



# A green budget is not a strategy!

- “Increase green, reduce brown” is limited
  - Residual brown e.g. defense
  - Spend more vs. spend better?
  - National priorities and different time horizons
  - Extra-budgetary tools



Long term strategy  
=> Map and trajectory

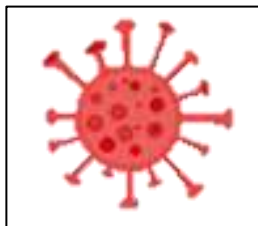


Green budget  
assessment  
=> GPS position



Political decision  
=> Someone holding  
the wheel!!

# ... So what now?



2017

2018

2021

2022



Advance GB at EU level

Spend all fossil taxes in climate action

Reduce and ultimately roll back all harmful spending

**Increase scope** (*tax, tax niches*)

**Avoid Greenwashing** (*nuclear, new cars*)

**Make it an effective constraint** (*air transport*)

**Include into long-term planning tools** (*mainstream into decision-making*)

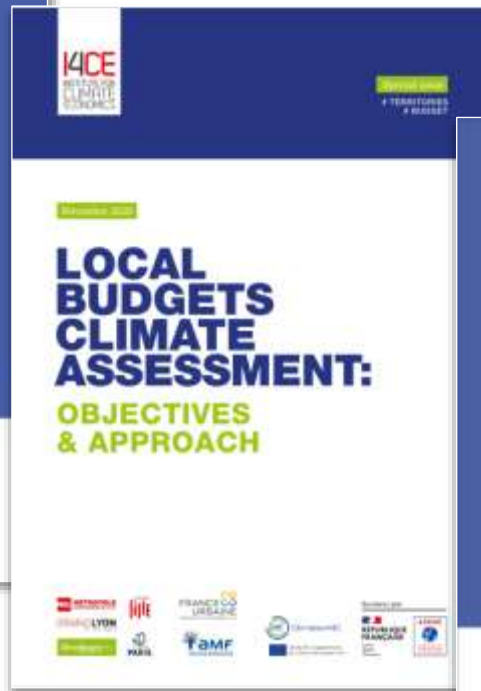


# Overview of our research

2019



2020



2021



2021



# Concrete case study: French NGO perspective

*Emeline Notari, Climate Policy Officer*





# The French green budget : what are the key points ?

3 key points :

- The importance of harmful tax and budget expenditures for climate and biodiversity in France, and the flawed methodology used by the government to do its green budget
- The need to increase our green spendings
- What public policies should follow such report

# Harmful tax and budget expenditures for the climate in the French green budget

- A green budget that is more and more used in a way to hide some harmful tax expenditures
- The importance of including all kinds of harmful subventions for the climate : the French green budget counts 10 billion harmful spendings, while the CAN France counts 25 billion

# The need to increase our green spendings

- The green budget identifies 42 billion that are spent each year in an environmentally friendly way
- It's less than the Ministry of environment's budget (49.9 billion)
- We have more than 5 billion's tax and budgetary expenditures of the Ministry that are considered harmful for the climate and the biodiversity

# What policies should follow such exercise?

- The CAN France is asking for a national strategy to eradicate these harmful taxes and budget expenditures and to increase France's green spendings

Thank you for your attention  
Any questions?

# Concrete case study: For a more sustainable and readable budget policy in Luxembourg

*Muriel Bouchet, Director*



03.05.  
2022

**FONDATION IDEA a.s.b.l.**

For a more sustainable and readable  
budget policy in Luxembourg

**Fondation IDEA:** created in 2014, by the Luxembourg Chamber of Commerce. In order to enhance the socioeconomic debate in Luxembourg. In a neutral, scientific way.

**Independent think tank** (the only one in Luxembourg). Macroeconomics, demography and public finances (**including long-term sustainability**), labour market and social issues, cross-border cooperation, finance, ...



But we also focus on «**green**» **sustainability**, greenhouse gases, mobility, ...





## GREEN BUDGETING : OPINION ON THE 2021 DRAFT BUDGET

We produce each year an opinion on the draft State budget in Luxembourg. Discussions with Members of the Parliament (Commission on Finances and Budget), press conference. Very good media coverage and our opinion is prominent on the Internet site of the Luxembourg Finance Ministry.

In our opinion on the 2021 draft budget, we proposed several «amendments» to the budget. Including the «Green Budget» perspective. We were inspired by the French situation: annex to the budget in Autumn 2020.



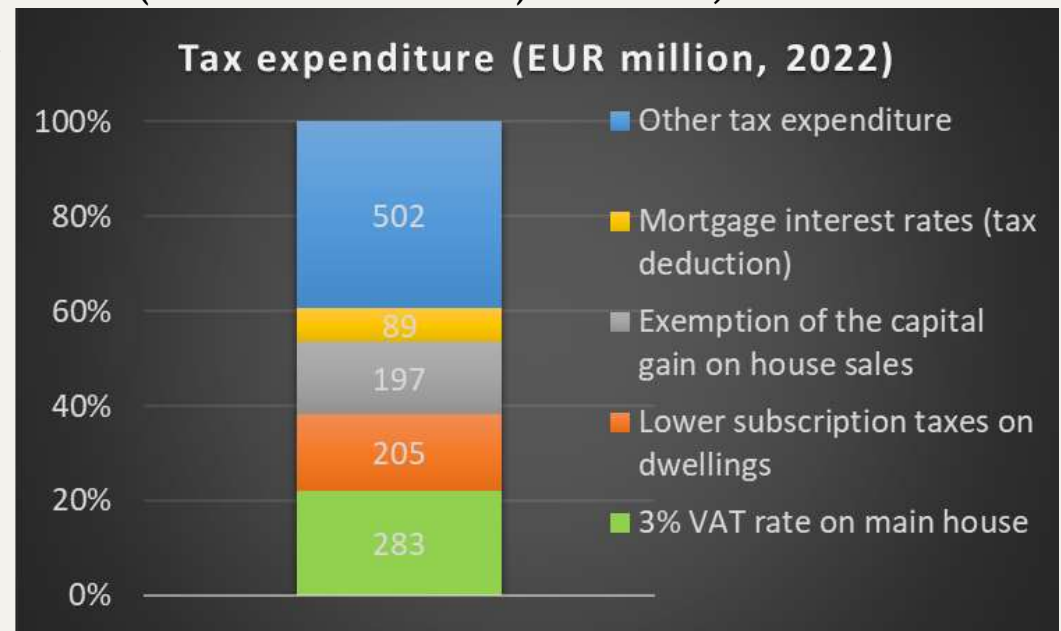
## GREEN BUDGETING : OUR PROPOSAL

Our concrete proposal:

- **Ultimately**, to flag public revenue, expenditure and «tax expenditure» (positive, negative or neutral for the green transition), based on several criteria: greenhouse gases, biodiversity, water, circular economy, ... Good governance, transparency, for general government.
- But with **a «step by step» approach** («time and resources»). Starting point: the so-called «tax expenditure» (central State), listed in a specific annex to the Luxembourg draft budget.

## GREEN BUDGETING : TAX EXPENDITURE IN LUXEMBOURG



- Total amount of EUR 1 276 million (i.e. 1.7% of GDP) in 2022, of which EUR 774 for housing (1.1% of GDP).



- Conditionality** (incomes, green housing), and **green budgeting** stricto sensu. Then, based on this experience, **gradual extension** (expenditure and revenue).

## GREEN BUDGETING :

### TWO « METHODOLOGICAL » CHALLENGES

- **First:** «Where to start from?» We propose to begin with tax expenditure. This is not fully in line with the «*Commission's Reference Framework*». But Luxembourg is quite specific: tax expenditure are large (i.e. 1.7% of GDP) and concentrated on housing (a big challenge in Luxembourg)  **integrated approach, pragmatic strategy** taking into account the socio-economic situation.
- **Second:** the current list of public expenditure **disregards several items** (company cars, for instance).
  - Not really a problem. The list is stable and the amounts are updated each year (as in the «general budget»)  reliable starting point.
  - But we should of course promote further extensions of the list.

## GREEN BUDGETING : « PROGRESS REPORT »

- **No direct integration** in the 2022 draft budget.
- But a section on Green Budgeting was included in the (very recent) **Stability Programme of Luxembourg**:  
*«In the medium-term, the green budgeting methodology will evolve, depending on the experience gathered on the ground and through the efforts made at the European level in order to develop the related tools».*
- In addition, Luxembourg now takes part in the OECD «**Paris Collaborative on Green Budgeting**» (14 countries). This was one of our most prominent recommendations (networking and access to methodological tools).

Thank you for  
your attention

[www.fondation-idea.lu](http://www.fondation-idea.lu)



# Cross fertilization: How to act in your country?

*15 min*

# Link to the Klaxoon session

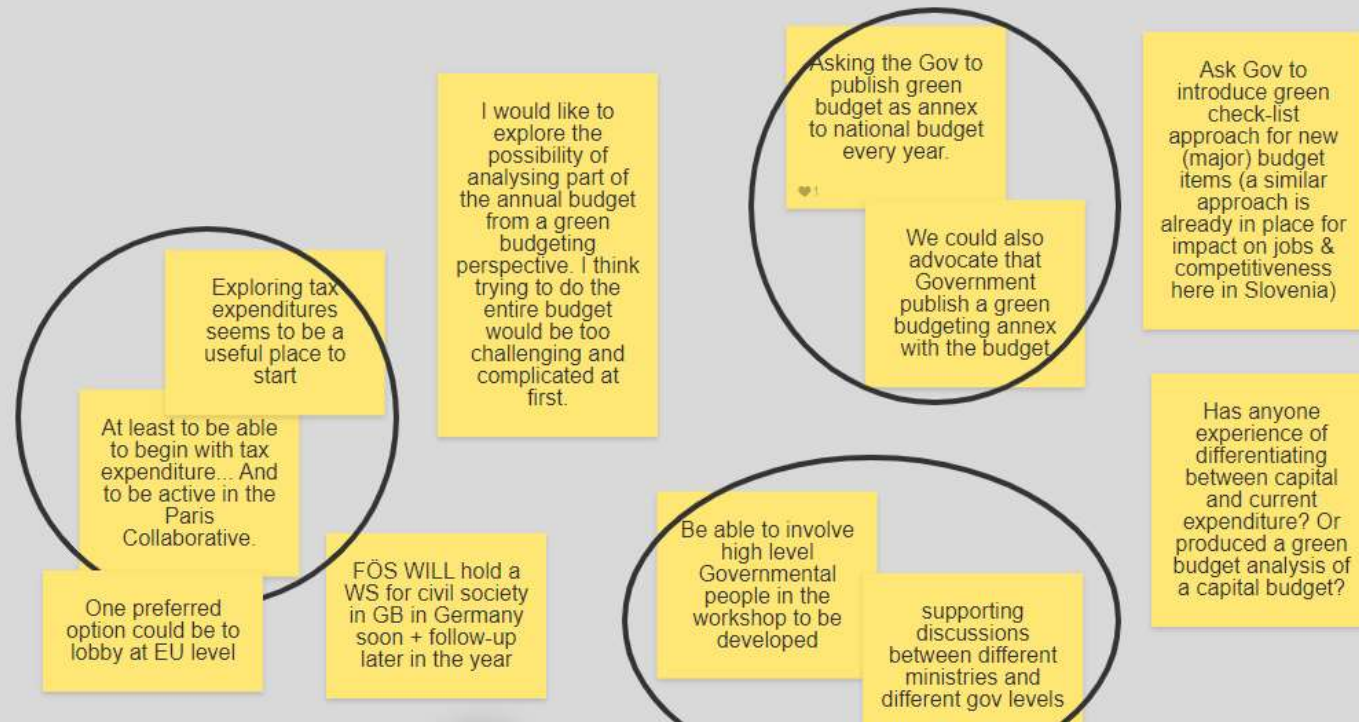
## Towards a Climate Neutral EU: Efficient Allocation of EU...

The EU's transition to climate neutrality committed to in the...

[www.levego.hu/en/cam...](http://www.levego.hu/en/cam...)

In Hungary, CAAG has done green budgeting between 1991 and 2016 but it is impossible to influence the current government. Therefore, we are working on the EU budget which can have a substantial effect on the national budget:

**Post what you would like to do about green budgeting after this presentation**  
(1 post-it per idea) (5 min)







# Group discussions

## Perspectives for future collaboration?

*15 min*

# Some ideas... to complete

- Would you like to have a meeting if one government publishes its budget (organized by one local CSO)?
- Would you like to have a mailing list on CSOs and GB?
- Do you see other actors to contact? How would you like to proceed? Every one contact its “national friends”?
- Would you like to contact your climate council? Open letter?
- Your government? How?
- Would you like to launch a tracker? Each national CSO could feed the tracker to identify who is doing what

Joint work on the  
revision of  
National Energy  
and Climate  
Plans?



# Going further: social assessment

*Dr. Sébastien Postic, Project manager*



The logo for the Institute for Climate Economics (I4CE) features the letters 'I4CE' in a bold, sans-serif font. The 'I' and '4' are black, while the 'C' and 'E' are red.

INSTITUTE FOR  
CLIMATE  
ECONOMICS

Unité d'Enseignement et de Recherche  
du Collège de l'Université de Montréal

## End of the world, versus end of the month?

*A framework to integrate social considerations into green  
budget assessments*

# How to account for social justice in climate action?

- **Climate action without social safeguards may be an issue**, not a solution
  - See e.g. France, Ecuador, Egypt, Indonesia...
- Old issues, new concepts: Just transition, SDG budgeting, etc.



# How to account for social justice in climate action?

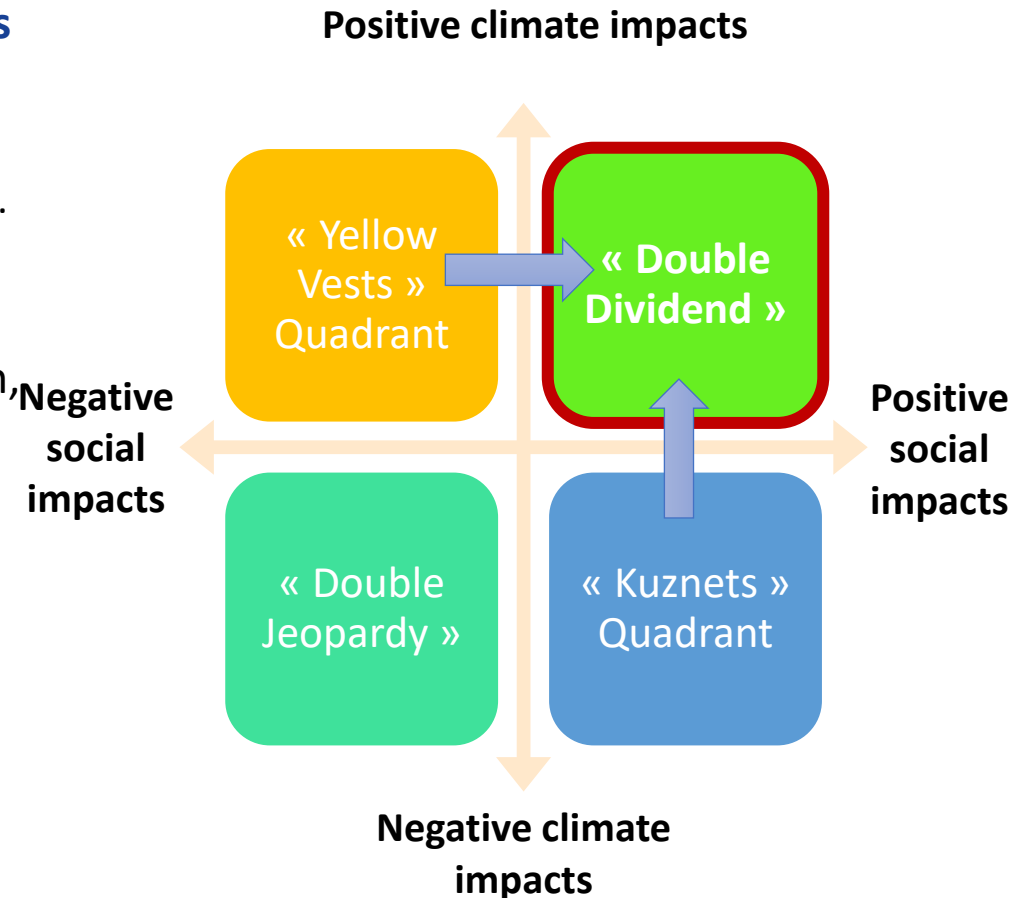
## ➤ Climate action without social safeguards

**may be an issue**, not a solution

- See e.g. France, Ecuador, Egypt, Indonesia...

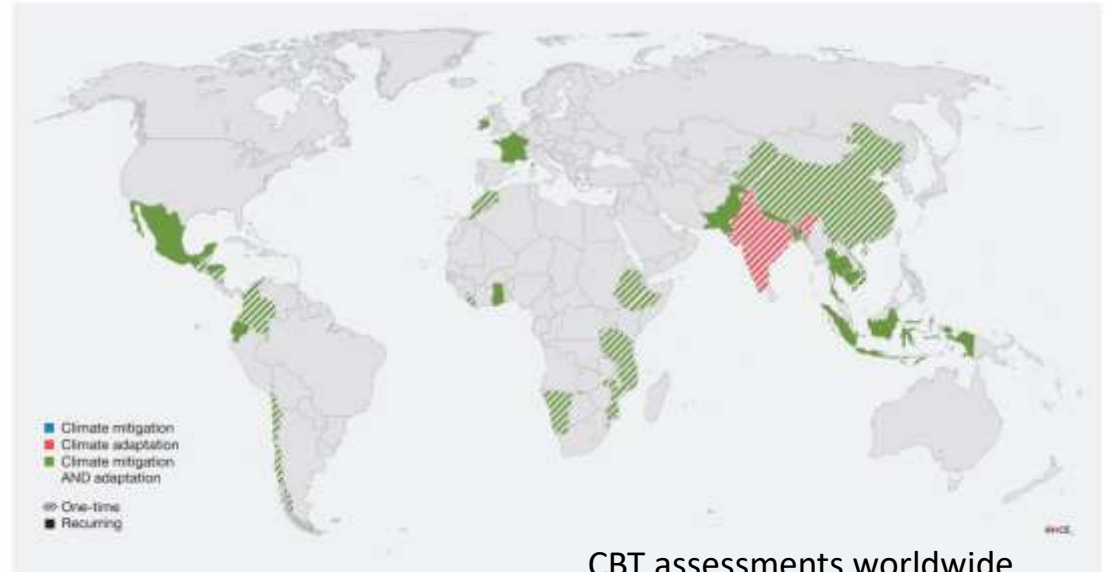
## ➤ Old issues, new concepts: Just transition, SDG budgeting, etc.

## ➤ Some opposite effects, but also some opportunities for **co-benefits**.



# Why climate budgets should care about social impacts

- **Between  $\frac{1}{4}$  and  $\frac{1}{2}$  of a country's GDP**
- **Climate and social issues are still addressed in silos in the budget:**
  - Two **technical issues with their own experts**, lacking dual knowledge
  - Transversal issues difficult to address individually by policy makers, MPs & CSOs; **let alone together!**
- **The tools are here already!!**
  - E.g. climate budget taggings...



CBT assessments worldwide

Source : I4CE

<https://www.i4ce.org/download/environmental-budget-tagging-climate/>

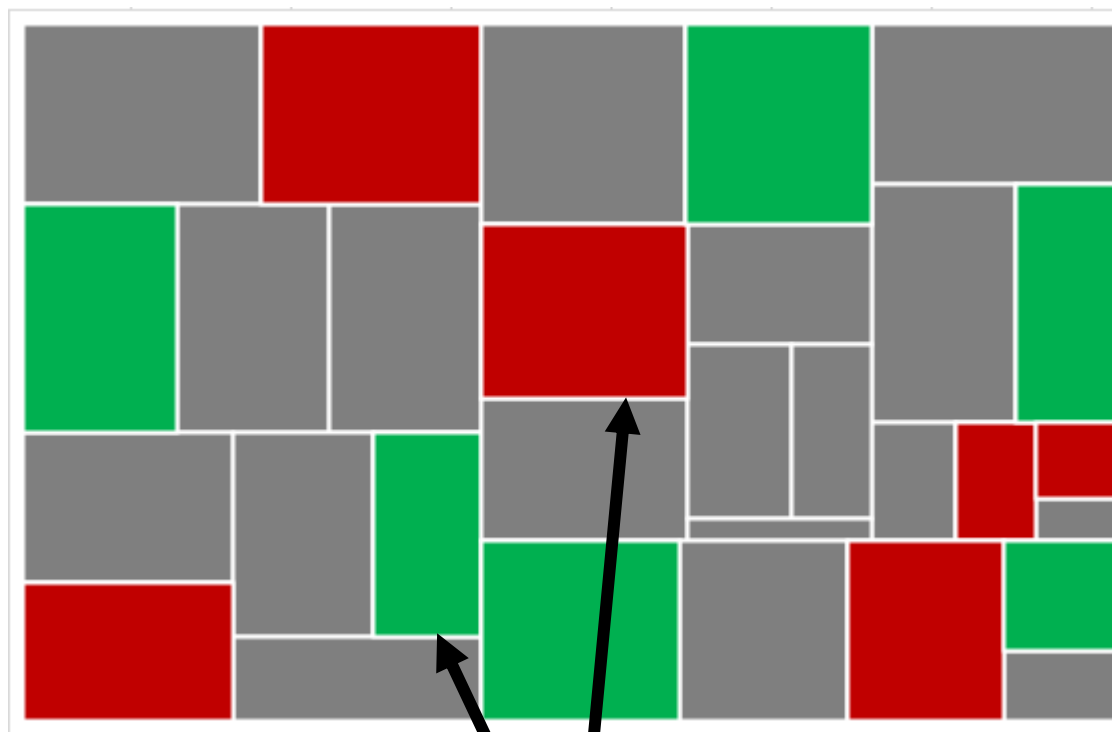
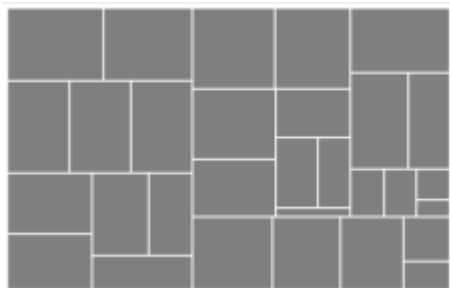
## Screening green budgets for social hotspots – At a glance (1)



**State budget**

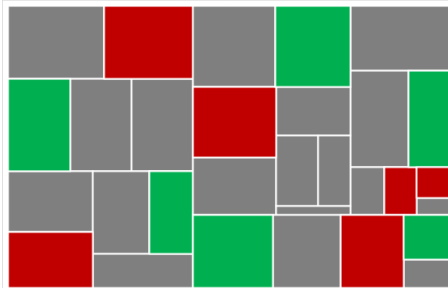
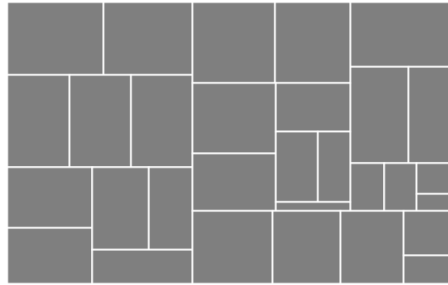


## Screening green budgets for social hotspots – At a glance (2)

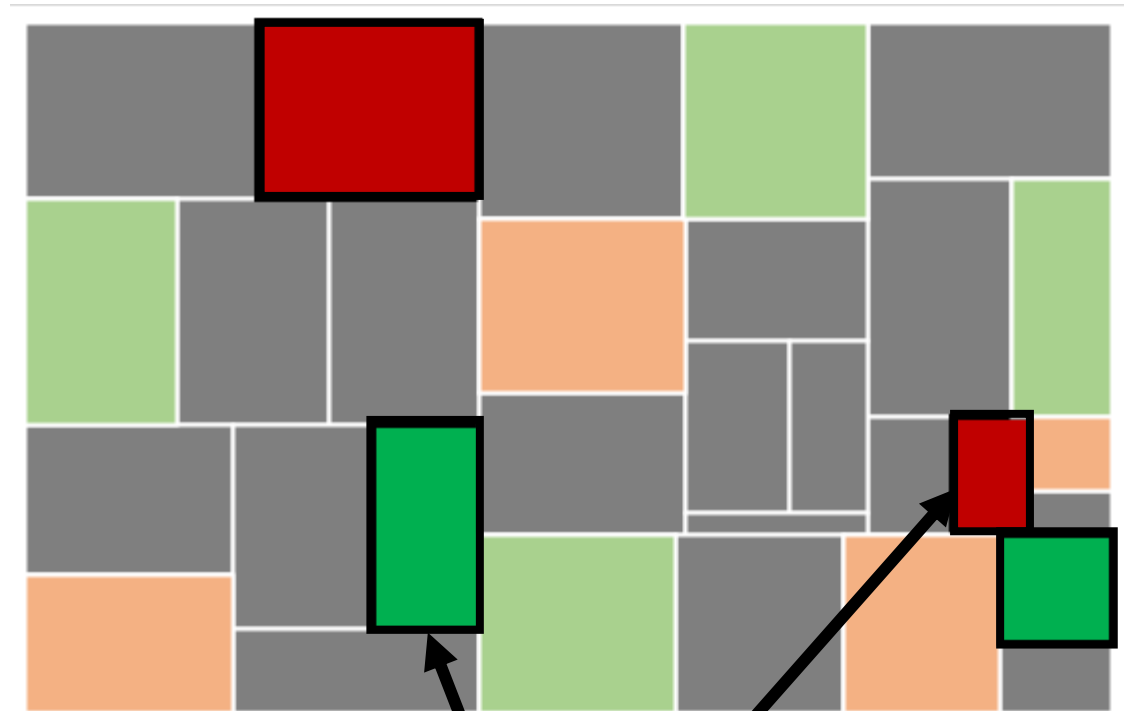


**Climate-related measures  
-> Green Budget**

## Screening green budgets for social hotspots – At a glance (3)

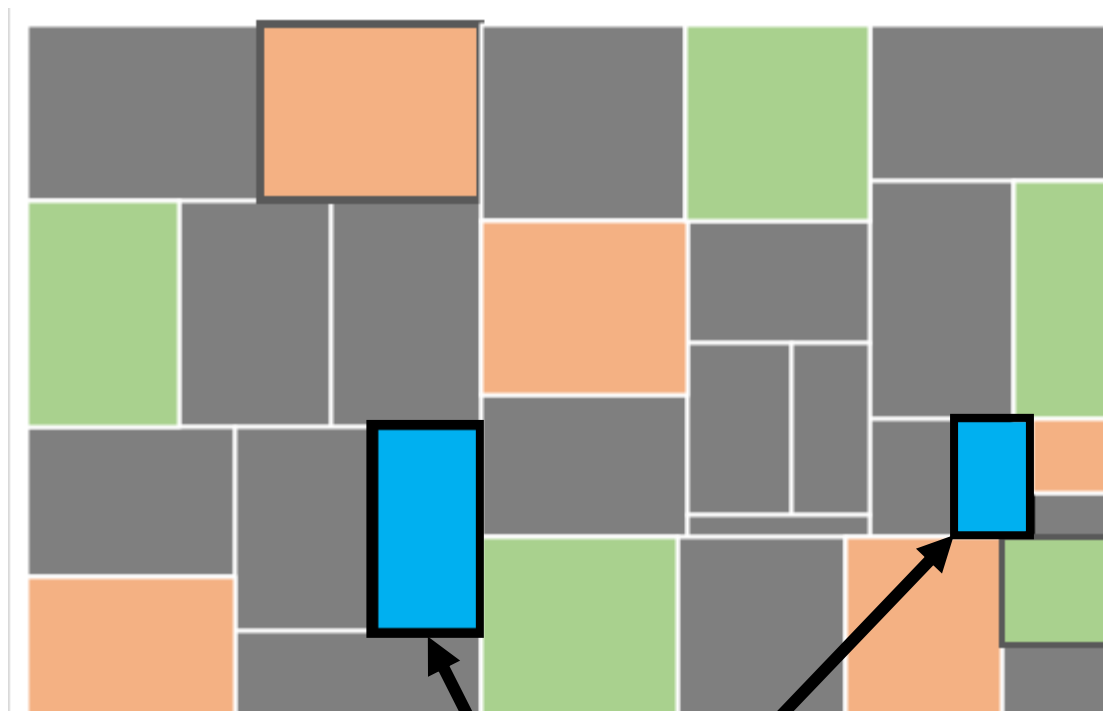
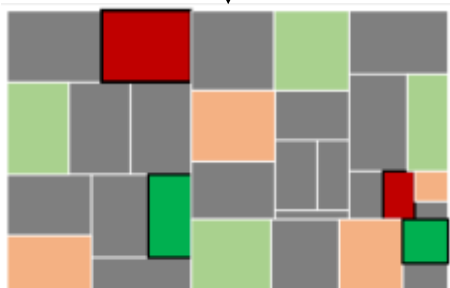
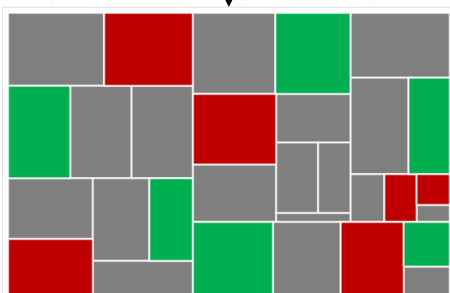
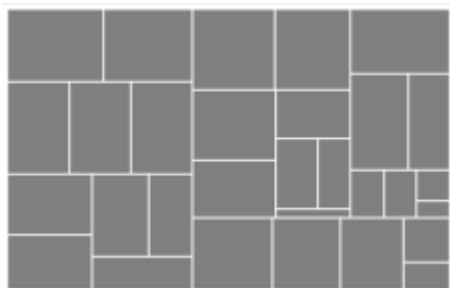


le climat



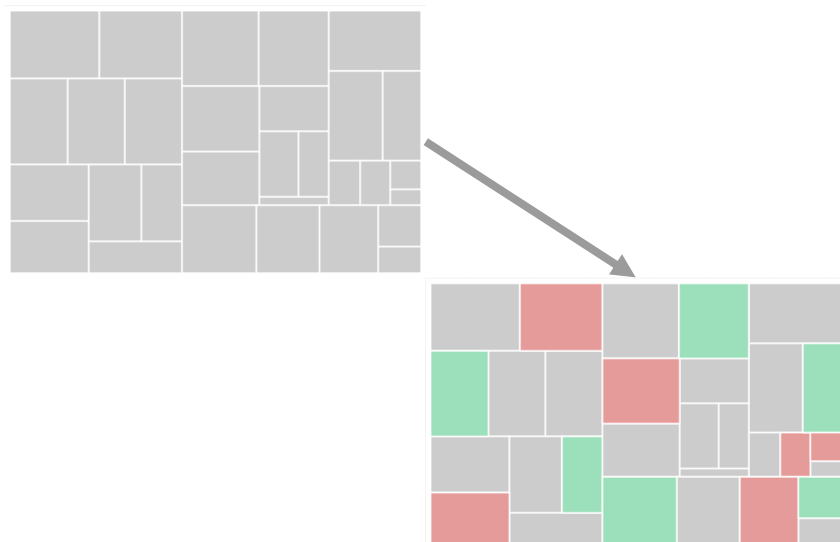
**Social and climate impacts**

## Screening green budgets for social hotspots – At a glance (4)

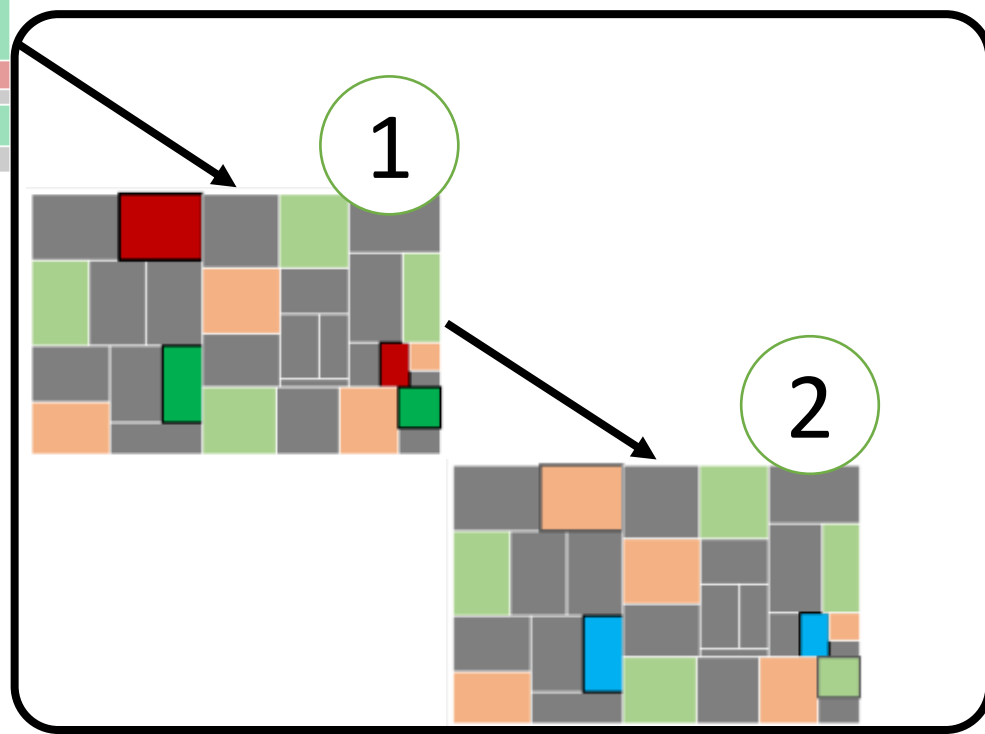


« Socio – climate  
hotspots »

# Screening green budgets for social hotspots – At a glance

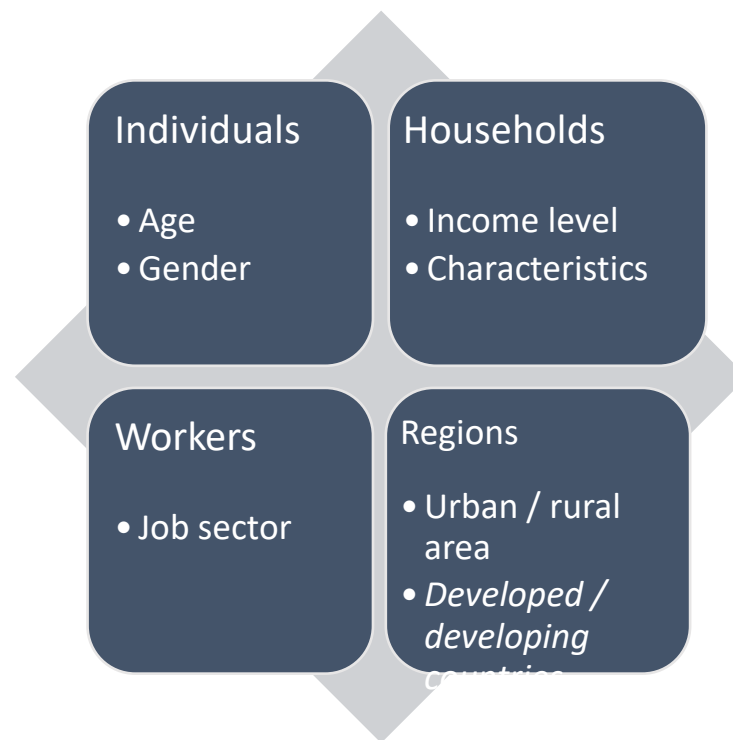
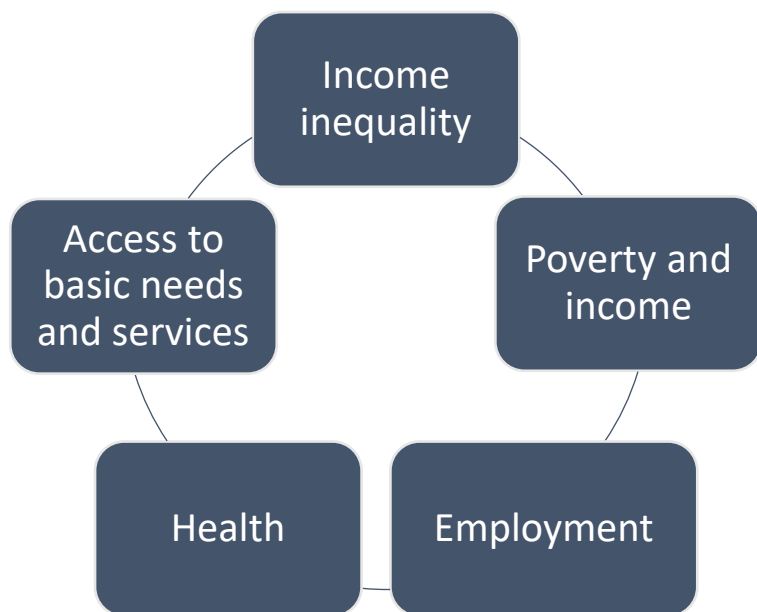


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ECONOMICS



# Social impacts – What are we talking about?

## Social indicators Intensification factors

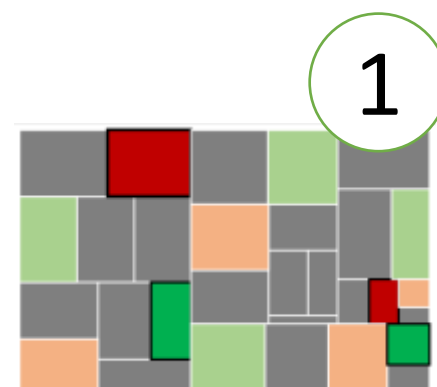


## Example:

- Workers in polluting or energy-intensive sectors are more at risk of losing their jobs, and finding a new job is more difficult for older workers.

1	Sector	Energy	
2	Category	Renewable energy	
3	Sub-category	Development of renewable energy projects	
4	Budgetary measure	Investments	
5	Code	EN1_1	
6	Countries (developed – developing)	Developed & developing countries	
7	Mitigation	Positive impacts	
8	Adaptation	/	
9	Social co-benefits	Health benefits; employment impacts in RE sector; women employment; regional implications for workers, job creation where limited employment opportunities	
10	Social adverse side-effects	if increased energy prices: impacts on poorer households, energy poverty & health impacts, job losses in RE sector; population displacements	
11	Social indicators	Income inequality	YES
		Poverty & income	YES
		Employment	YES
		Health	YES
		Access to basic needs & services	YES
12	Intensification factors	Income	YES
		Urban / rural area	YES
		Job sector	YES
		Gender	YES
		Age	NO
		Other household characteristics (energy used for heating, family structure, employment status, dwelling type, car & home ownership)	NO

## Step 1 - Identify social impacts



- Only climate-related measures
- **Both positive and negative** social impacts

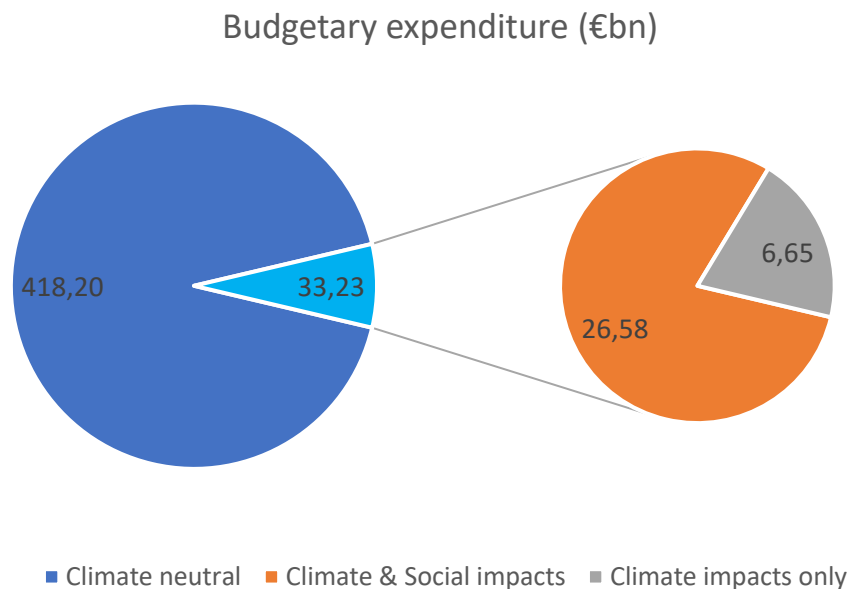
Source:

<https://www.ofce.sciences-po.fr/pdf/revue/07-176OFCE.pdf>

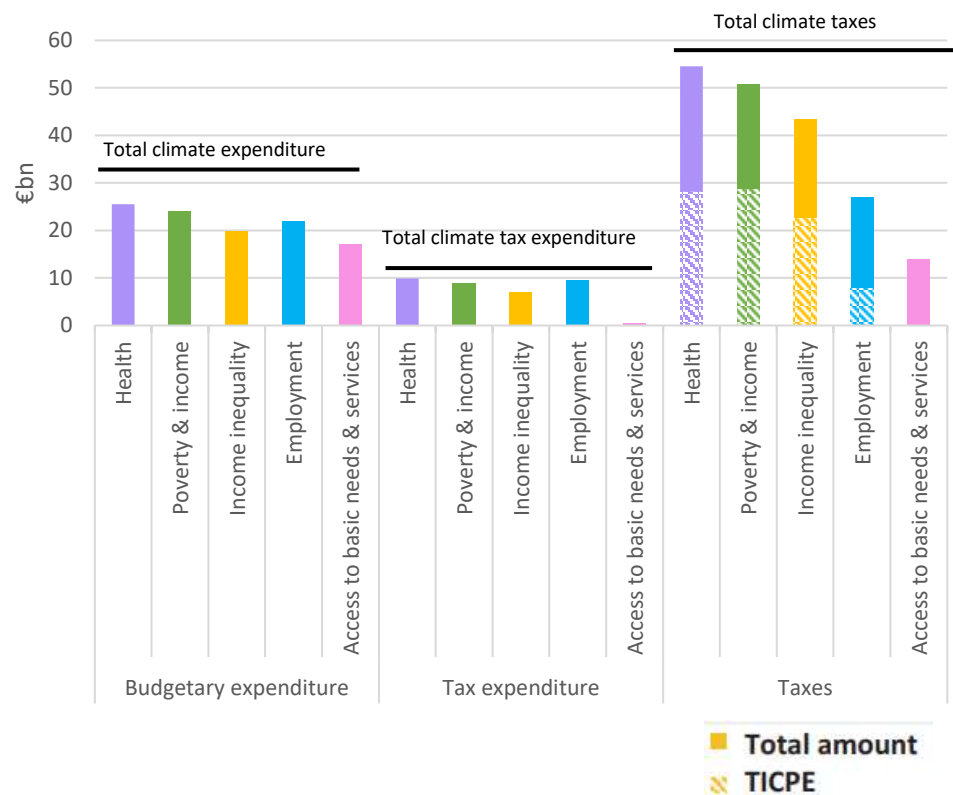
# Insight #1 – Social impacts are everywhere!!

- **80%** of climate-related budgetary expenditure **have social impacts** – 100% for taxes and tax expenditure.

- The social dimensions **Health and Poverty and Income** are the most impacted.

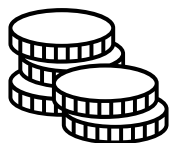


[\*\(Forthcoming publication\)\*](#)



## Step 2 – Single out socio-climate hotspots

### ➤ Selection criteria :



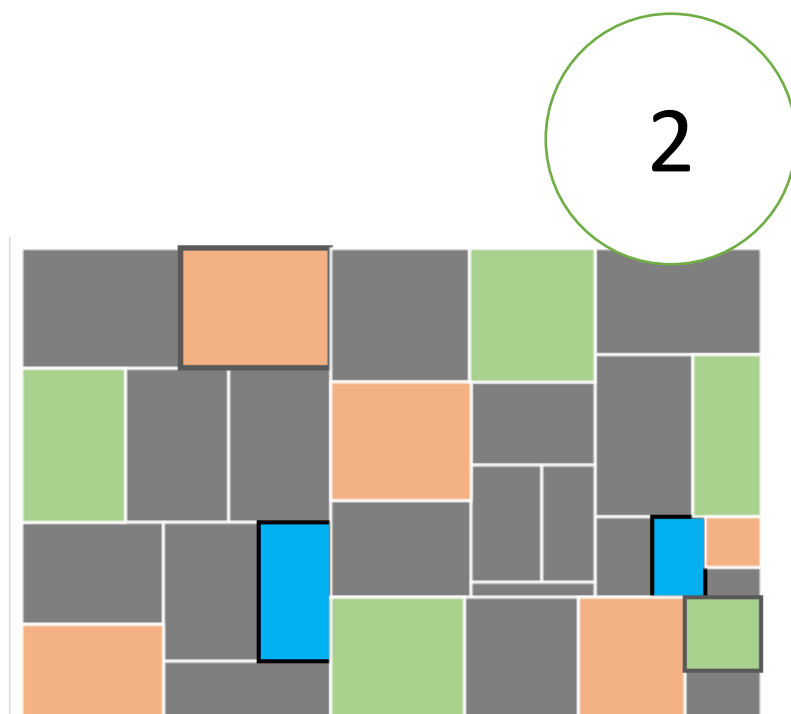
**Amount**



**Scale of climate impacts**



**Scale of social impacts.**





## Insight #2 – 14 measures, EUR 60bn, 2/3 of total amount

Budget lines	Amounts (€)
Financial support to households for energy-efficiency renovation work in housing	2 227 500 000
Railway investments	2 564 200 000
Balanced and sustainable management of territories	451 700 000
Financial support for electric renewable energy in mainland France	4 738 400 000
Subsidies to reduce energy prices in non-interconnected areas, as a solidarity mechanism	1 493 300 000
Reduced VAT rate (5.5%) for energy-efficiency work in housing completed more than two years ago, and inextricably linked work	1 460 000 000
Property tax rebate for energy saving works on built properties for social housing	111 000 000
Tax credit for energy transition	150 000 000
Reduced TICPE rate for diesel used as fuel by road freight vehicles of at least 7.5 tonnes	1 408 000 000
Reduced TICPE rate for gas oil used as fuel for public transport vehicles	220 000 000
Reduced TICPE rate for non-road diesel, heavy fuel oil and liquefied petroleum gas used for agricultural and forestry work	1 420 000 000
Domestic consumption tax on energy products (TICPE)	33 352 414 000
Domestic tax on the final consumption of electricity (TICFE)	7 953 000 000
Domestic consumption tax on natural gas (TICGN)	2 441 000 000

# Insight #3 – 4 key sectors of impact

renovation of buildings
transport
agriculture – forest
energy

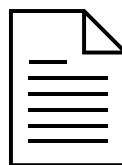
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# Perspective – Is reform necessary? Is it possible?

## ➤ Framework for **assessing the hotspots reformability**



Rationale for reform



Proposed reform



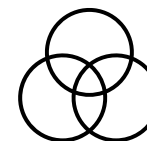
Climate-social trade-offs



Costs-benefits for  
the government



Drivers and barriers  
to public acceptability



Complementarity with  
another proposed reform

# An example: reduced diesel tax for freight trucks

Reduced diesel rate for freight trucks (> 7.5 ton)					1.4 bn€
<i>Proposition</i>	<i>What is the goal?</i>	<i>Social side-effects?</i>	<i>Public costs and/or benefits?</i>	<i>Public acceptability?</i>	<i>Complementarity with another measure?</i>
<b>Removing the reduced rate</b>	<ul style="list-style-type: none"> <li>- Reduce fossil fuel consumption</li> <li>- Encourage low-carbon alternatives</li> <li>- Foster modal shift</li> <li>- Limit air pollution</li> </ul>	(--) Revenue impact  (--) Competitiveness (short term)	(+++) Reduce tax expenditure	(---) Strong opposition from drivers	>> Increased subsidies for rail and waterway freight  >> Development of rail and waterway infrastructure

**Not always necessary to choose** between climate and social benefits !

Look for complementarity and interconnections between hotspots



Thank you for your  
attention

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