

# Green Budgeting in France

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Why a green budgeting?

- **Before autumn 2018**
  - A “Green OAT Evaluation Council” issues an opinion on specific environmental impact evaluation of expenditures associated with our green sovereign bond
  - 3 reports are attached to the Budget bill:
    - Report on spending related to renewable energy
    - **Report on spending**
    - List of spending associated with the Ministry for Ecological Transition
- **New commitments**
  - In 2017, France committed to Paris Collaborative on Green Budgeting, an OECD initiative to assess the compatibility of its public finance trajectories with the Paris Agreement
  - The budget bill for 2019 calls upon the government to issue a report on *the economic, fiscal and budgetary instruments in support of the environment and climate*.
  - In 2019, Energy and Climate Law request a report to Parliament on *positive and negative incidence of the budget bill for 2020 on climate change*

# Why green budgeting ?

- An efficient tool for decision-making on environmental and climate policy
- Allows a precise management of environment-compatible expenditures and taxes.
- Allows to identify unfavourable expenditures (especially tax expenditures)
- Transparency is key for public ownership of public policies, esp. on climate
- Strong demand from MPs

- No existing methodology for a comprehensive green budgeting *per se*
- Very comprehensive works by OECD on environmental taxation
  - “Environmentally related tax means a tax whose tax base is a physical unit (or a proxy of it) of something that has a proven, specific negative impact on the environment” (OECD)
- Some expenditures’ classifications already exist
  - Rio markers (OECD); COFOG classification of government expenditures (INSEE/Eurostat)
  - Peer-reviews on fossil fuel subventions (G20)
  - Few methods assess all environmental objectives
  - Few methods assess unfavourable expenses
- Lots of methodologies exist for private finance but do not apply straightforwardly to public finance

# Towards a methodology for a green budgeting

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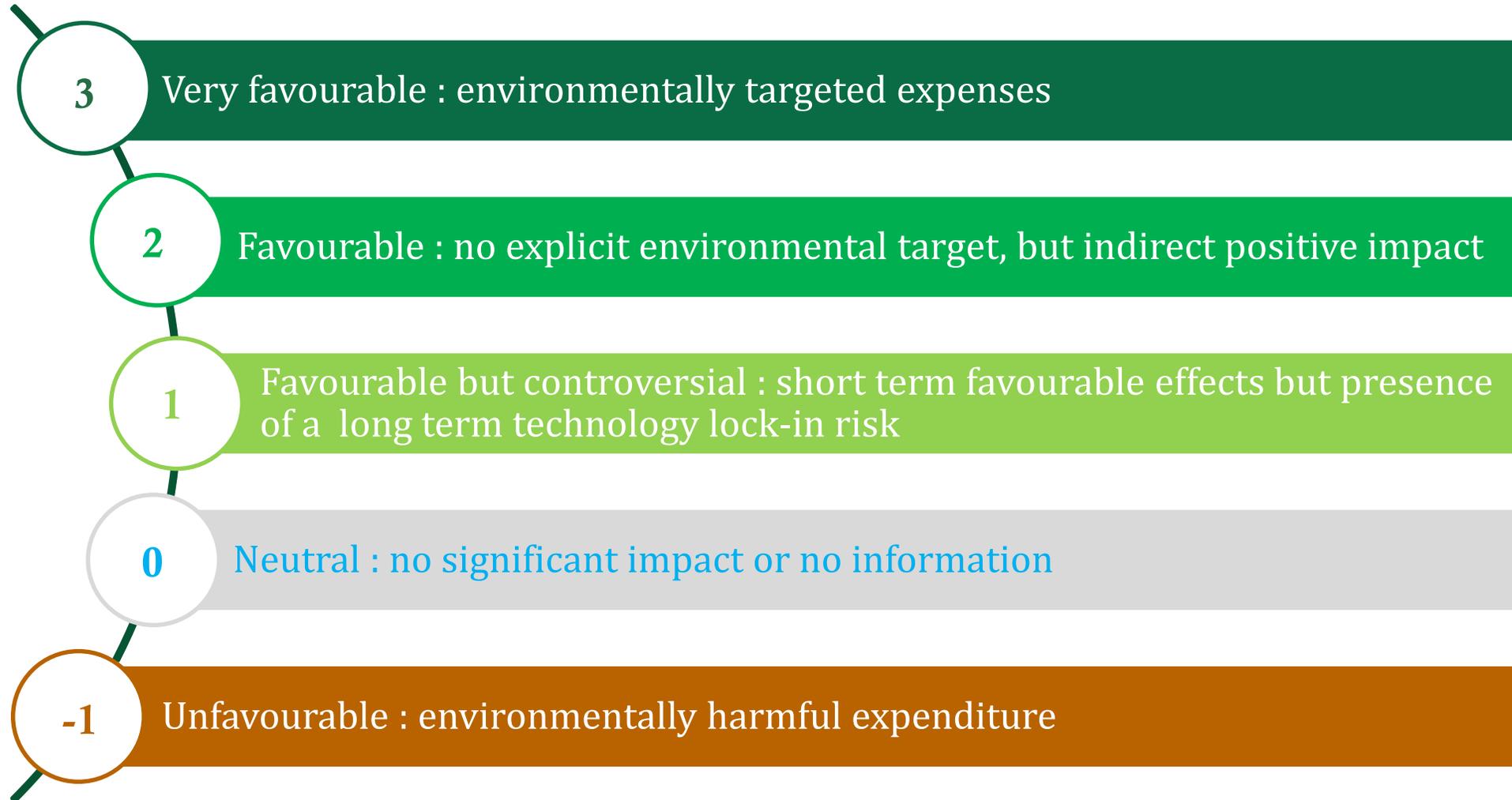
- **First step in September 2019 : issue of a methodological report**
  - Classification of government spending with respect to their alignment with Paris Agreement objectives
  - A preliminary report on the budget bill for 2019 is implementing this method
- **A comprehensive and transparent Green Budget will be presented in autumn 2020**
  - The final methodology will be subject to a public consultation before proposing the first comprehensive Green Budget
- **The first Green Budget will only tackle central government's spending and not:**
  - Spending by local authorities
  - Social spending

- Assess whether an expense is favourable or unfavourable to the environment
- Assess both investment and operating expenditures

Along the six objectives of the European taxonomy regulation



# Scoring expenditure for each objective



A multi-dimensional score offers better usability than a « black box » synthetic index

**Table 3: Example of proposed green budgeting methodology applied to transport**

Actions	Million euros	Climate mitigation	Climate adaptation	Water manag.	Waste & circular economy	Pollution reduction	Biodiversity landscape protection
Roads - maintenance	318	0	0	0	0	0	0
Railways	2431	2	0	-1	-1	1	-1
Waterways	251	2	2	2	0	2	0
Ports	99	1	0	0	0	1	0
Ports - for rivers	1	2	2	2	0	2	0
Public transport	23	2	0	0	0	2	0
Intermodal transport	32	3	0	0	0	2	0
Supporting services	18	0	0	0	0	0	0
Road transport	6	0	0	0	0	0	0
Air transport	35	-1	-1	0	0	-1	0

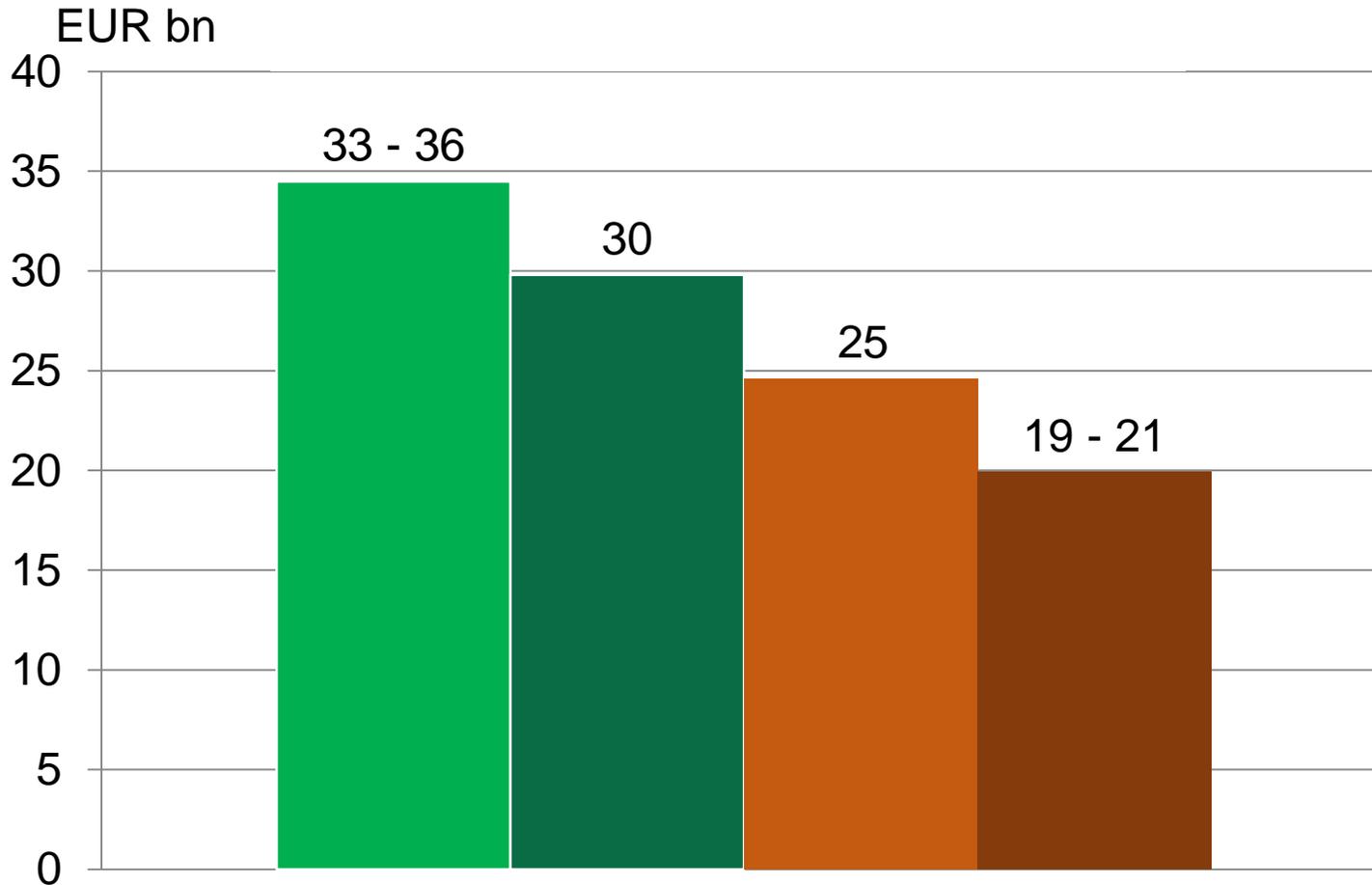
- A counterfactual must be chosen
  - Quite tricky when it comes to public expenditures (what if we do not invest in railways anymore?)
  - Difficulties are limited as the aim is not the make an impact evaluation of all spending
- Examples
  - Agriculture : the counterfactual is non-environmentally targeted aids
  - Transport : the counterfactual is the current infrastructure and traffic : modal shift is thus the only effect taken into account for a new infrastructure
  - Energy : the counterfactual is the current energy mix
  - Housing : the counterfactual is zero soil artificialization

# A preliminary assessment of the budget bill for 2019

# A preliminary assessment of favourable and unfavourable expenses

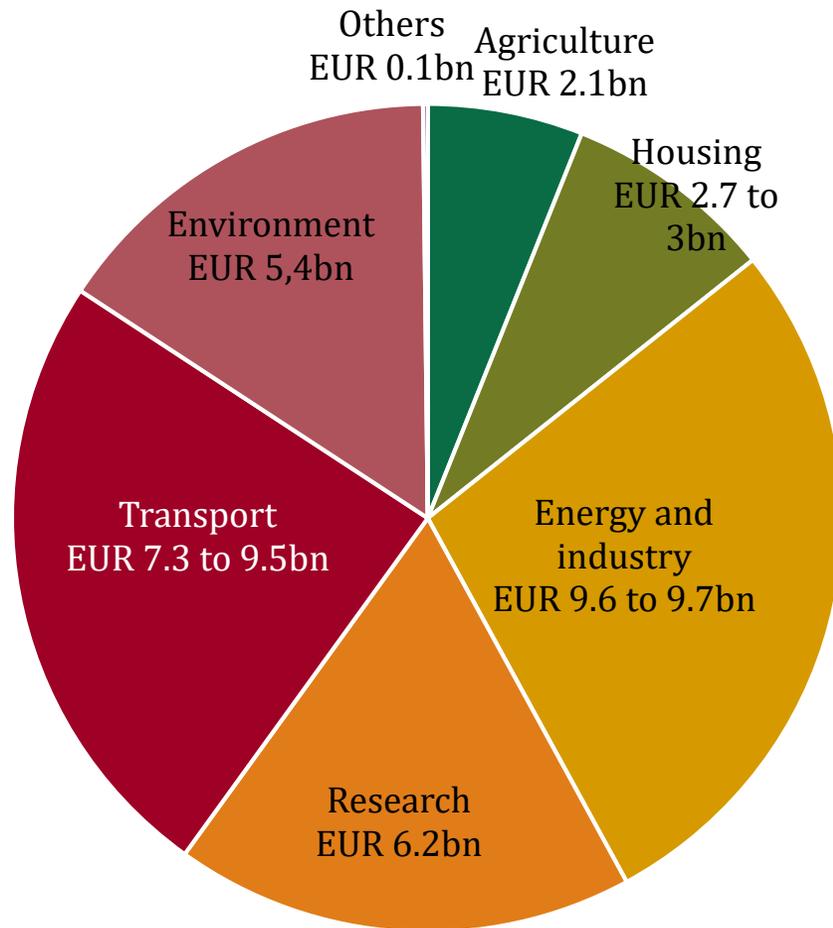
- 4 missions have been investigated so far on the 2019 budget bill  
Agriculture, Ecology, Research and Regional Development
- **Multidimensional monitoring**
  - Objective-specific totals
  - At least once favourable
  - Once favourable without harming other objectives
  - At least once unfavourable expenses
  - Unfavourable without being favourable to other objectives

# A preliminary assessment of favourable and unfavourable expenses



- **At least once favourable**
- **Once favourable without harming other objectives**
- **At least once unfavourable expenses**
- **Unfavourable without being favourable to other objectives**

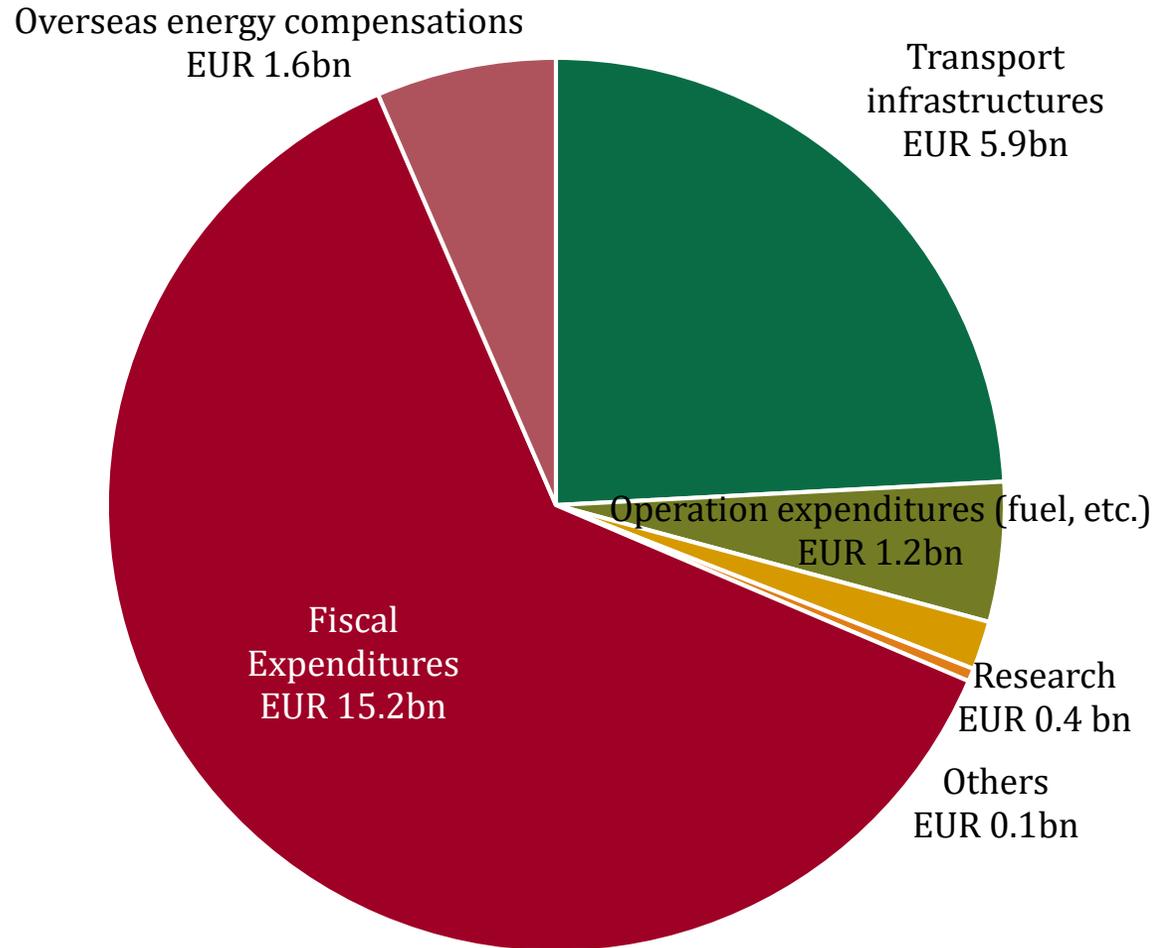
# €35bn of favourable expenditures



## Largest favourable expenses

- €9.7bn of energy expenditures, among which
  - € 7.3bn for renewable energy development
  - € 1.3bn for cogeneration development
- €9.5bn of transport expenditures, among which
  - € 4.3bn for new rail infrastructures
  - € 1.0bn for collective transport systems
  - € 0.6bn for low emission vehicles aids
- €6.2bn of research expenditures
- €5.4bn of environment expenditures, among which
  - € 2.0bn for water management agencies

# € 25 bn of unfavourable expenditures



## Largest unfavourable expenditures

- **€15.2bn of fiscal expenditures:**
  - € 12.2bn for exemptions or reduced rates on fuel tax (air transport, sea transport, road transport, taxis, LPG),
  - € 1.3bn for reduced rate of electricity tax on electricity for electro-intensive sites,
  - € 1.3bn of tax expenses relating to new housing
- **€5.9bn of transport expenditures:**
  - € 0.7 bn of new road and airport infrastructures
  - € 5.2bn of new rail infrastructures that generate non renewable waste

- The sole analysis of the budget bill is not sufficient to evaluate the compliance of national policy with international climate and environment commitments
  - Environmental regulations are not included in the scope of the budget bill
  - To fulfil the ecological transition, not only government expenses, but also private sector and local authorities expenses must be made compatible with environmental and climate commitments
  - The green budget does not evaluate the efficiency of environmental expenses
- International comparison may not be feasible
  - Counterfactual *scenarios* are very technology-dependant
  - Expenses granularity in the Budget Bill can vary across countries
- Scoring must be regularly revised with impact evaluation progresses

# Towards a methodology for a green budgeting

- First step in September 2019 : issue of a public methodological report
- A comprehensive and transparent Green Budget will be presented in autumn 2020
  - The methodology is submitted to a consultation with academics and civil society
  - All government expenses in the 2021 draft budget bill will be taken into account
- A new element of the budgetary process
  - A green budget will be issued with each draft budget bill
  - Each new expense will be classified with respect to its alignment with Paris Agreement

Thank you !

Pour plus d'information :

[www.tresor.economie.gouv.fr](http://www.tresor.economie.gouv.fr)

