

FRDO-CFDD SEMINAR ON GREEN BUDGETING 21 DECEMBER 2023

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Brent BLEYS introduces the seminar. He indicates that the search for coherence between countries' budgets and their economic, social and environmental policies is an idea that goes back as far as Agenda 21 (1992), but that until now, environmental policy has not generally sought to use public budgets. Under the initial impetus of the OECD, continued by the European Green Deal in 2019, there is currently a political momentum in favour of green budgeting. Unlike the vast majority of EU Member States, no steps have yet been taken in Belgium at political level to implement green budgeting. The members of the FRDO-CFDD have agreed to meet at the beginning of January to discuss the possibility of publishing an opinion on this subject.

Simona POJAR points out that the European Commission defines green budgeting as a budgeting process whereby the environmental contributions of budget items are identified and assessed, with a view to better aligning policies with environmental objectives (including climate objectives). The budget is one of the main expressions of how a government intends to implement its political ambition, and this is where green budgeting comes in.

The European Commission's promotion of green budgeting is rooted in the Green Deal. The Commission has drawn up a "green budgeting reference framework" (GBRF) to support the use of green budgeting by Member States and to monitor these practices in the EU. This framework can be adjusted to suit national circumstances, but promotes consistency of practice across the EU. It comprises 5 elements, for each of which a step-by-step approach is recommended:

- 1° Scope (which environmental objectives ? - which budget items: favourable, unfavourable, tax expenditure ? - For central government or also local authorities, public companies ?)
- 2° Methodology (tagging : either green or brown, or also neutral ? - ex-ante impact assessment ? - ex post evaluation ?)
- 3° Deliverables (annual budget or execution reports ? - multi-annual plans ? - extra budgetary entities ?)
- 4° Governance (ad hoc task force ? - more permanent central structure ? - green budgeting representatives in line ministries ? - leadership ?)
- 5° Transparency and accountability (Independent evaluation of methodology - Independent evaluation of the reports - Parliamentary discussion - Ex post review).

At European level, 2/3 of Member States are already using green budgeting or are planning to do so. One of the challenges is to integrate green budgeting into the regular budget cycle, but this is the only way to ensure that environmental objectives actually influence policy. At this stage, green budgeting has mainly been used to make government action transparent, and less to decide on the budget. The Commission hopes to see this change. Green budgeting can be included in the budget cycle at the level of planning, preparation and negotiation of the budget (parliamentary involvement), execution and control of the budget.

Simona Pojar announces that the Commission, in collaboration with the FPS BOSA, will be organizing a conference on green budgeting on 21 March 2024. The aim will be to see how to improve synergy and coherence between green budgeting and the various green instruments used in the EU.

Chloé BOUTRON stresses that it is really important to use budgets to help governments achieve their climate and environmental objectives. National budgets need to be "greened" by governments because we need to ensure that sufficient funds are directed to green activities/diverted from environmentally damaging activities, and that we create the economic conditions for transition.

In this context, green budgeting is useful. Its aim is to align public budgets with green objectives. The green budget tagging methodology is a good starting point. It is important to use it with a view to widespread application, i.e. not only for national budgets, but also for those of local authorities and state owned companies. Green budget tagging is a process which consists of going through each of the items in the entity's budget (expenditure, revenue, tax expenditure), and systematically identifying whether they contribute to or prevent the achievement of the entity's green objectives (climate only, or also including other environmental dimensions, or any other dimension considered relevant), or are neutral in this respect (green/brown/neutral tag). It is important to include all budget items in this analysis (whole of government approach).

It is possible to implement tagging gradually, starting with climate, for example, for the budget of a single ministry, and extending it to other components in subsequent years.

Green budget tagging can serve a large number of objectives: 1° assessing and improving the consistency of public spending with climate and environmental objectives, 2° improving the transparency of government action (parliament, civil society, citizens), 3° making public spending more efficient (possibility of budget trade-offs based on the tag), 4° facilitating access to international financing, 5° highlighting areas of the budget that need to be reformed/removed/strengthened to align with the objectives. This last point presupposes that the tagging is sufficiently comprehensive to provide the necessary information. It is important to ensure this from the outset, even if, as indicated above, the scope of the exercise can be extended gradually.

There is currently political momentum in favour of green budgeting, driven and supported by the European Commission (DG Reform capacity building project). The Member States that are already using green budgeting are facing major difficulties, but there are many opportunities for exchange with administrations in other Member States or even non-European countries. Other European resources are available to support methodological development: the EU GBRF, the taxonomy, the green bond frameworks, Eurostat, etc. Belgium can also draw on its own experience (climate mainstreaming methodology already used for the recovery and resilience plan, green bonds).

To be effective, green budgeting must be based on national objectives. Thus, the "green" tag on a budget item means that it is aligned with your national objectives, unlike the "light green" tag, which simply indicates an improvement on a baseline. The "brown" or "red" tag indicates that the item is not aligned with the objective. Belgium already has a NECP and a long-term strategy.

What may also support the introduction of green budgeting in Belgium is the fact that public budgeting and financial management processes are fairly consolidated.

In Belgium, as elsewhere, there are a number of challenges to be overcome, but solutions exist in every case:

1° The format and level of detail of budget data are insufficiently informative.

2° Time and resource constraints.

3° Political will can be difficult to establish.

4° Green matters are dealt with by environment ministries.

In conclusion, we can say that green budgeting is feasible, but there are difficulties. You need to start by defining your objectives, roles and responsibilities. Then the main task is to develop your methodology. This can be done gradually, starting with pilot projects, and a variety of support materials are available.

A plan for financing the transition is particularly important, because the impact assessment methodology identified in the GBRF is particularly complicated to implement. It becomes less necessary when we have a financing plan, specifying the quantity of public funds to be allocated to activities that support the green objectives (and to be withdrawn from those that compromise them). Tagging is then based on a quantitative comparison of the funds allocated in the budget with the amounts identified in the financing plan.

Ideally, the financing plan should be based on the country's long-term strategy. It should include :

- An estimate of the climate investments to be released,
- An overview of the public policies to be put in place to generate these investments,
- Estimates of the financing gap,
- An overview of the sources of revenue that could be mobilized (taxes, withdrawal of certain tax expenditures, etc.),
- An assessment of the macroeconomic impact of the transition.

This financing plan should be sequenced over time and include a governance mechanism, in collaboration with those responsible for green budgeting.

Kerstin HAIDER presents the green budgeting approach in Austria.

The methodology is being developed by the Ministry of Finance. The approach already goes well beyond climate tagging, and also includes impact assessments, green bonds, the green finance agenda, the macro-economic modelling of GHG policy effects, etc. Both climate and environment are covered.

A set of principles has been established:

1° A "whole-of-government approach": all federal measures/financial flows, however they are organised, should be analyzed according to the green budgeting methodology.

2° A systemic approach covering not only expenditures, but also revenues (e.g. taxes) and legislation is crucial to identifying an efficient trajectory towards climate neutrality.

3° A stepwise approach: green budgeting as a learning system, at the level of the various ministries, with an increasing level of sophistication.

Green budgeting is linked to various processes within the Ministry of Finance and to the various line ministries. To coordinate all this, a 4-person green budgeting focal point has been set up within the climate team of the Ministry of Finance's DG Budget. It is recommended to set up a team to deal with the various subjects associated with green budgeting.

In 2022 and 2023, various actions have been carried out. The methodology developed and applied at federal level analyses each budget line (lowest common denominator; around 40,000 budget lines in the entire federal budget were analysed). A 6-step approach has been established to: 1° Identify relevant budget lines (10% of expenditure and income are considered relevant) and 2° Estimate their approximate impact, with a qualitative approach, and quantitatively in the future (6-step approach).

Step 4 is to score the impact of each relevant budget line using a “scorecard” with 6 negative, neutral or positive scores (-2 = Intended counter-productivity, -1 = counter-productivity as a side effect, 0 = no effect, 1 = productivity as a side effect, 2 = intended productivity, 99 = effect unclear).

Step 5 is to quantify the impacts in terms of GHG emissions. The aim is to establish simple and transparent impact calculations for as many budget lines as possible. As part of a pilot project, the indicators are carried over to a transparency database. The Ministry of Finance is working intensively with academics to standardise impact reporting using GHG multipliers.

The administration faces institutional challenges (convincing line ministries/departments of the need for green budgeting) and methodological challenges.

Work in progress and the next steps are aimed at:

- Fully integrating green budgeting into the budgeting process;
- Using the green budgeting methodology and “scorecard” as a basis for defining green bond expenditures;
- Intensifying the analysis of green budgeting at regional level and develop pilot projects with the regions;
- Exploring new budget chapters in greater depth;
- Proceeding to further spending reviews: implementation of the EU taxonomy / sustainability of public procurement
- Developing impact assessment (major project of the Ministry of Finance to estimate the GHG impact)
- Further developing the DNSH approach in Austria with a link to the green budgeting methodology.

Samantha HAULOTTE and Jean-Baptiste TRAVERSA present the second edition of the federal inventory of fossil fuel subsidies (April 2023).

The international and European context of fossil fuel subsidy policy is recalled. In particular, the COP 28 global stocktake decision mentions the "phasing out of inefficient fossil fuel subsidies that do not address energy poverty or just transition, as soon as possible". The joint statement on fossil fuel subsidies (initiative from the Netherlands) signed by Belgium together with 11 other countries urges "all parties at COP 28 to urgently implement their commitment of phasing out inefficient fossil fuel subsidies (...)".

New reporting obligations under the EU regulation on the governance of Energy Union and climate action (2018/1999/EU) are encouraging countries to report on energy subsidies and on their phase-out, in particular fossil fuel subsidies.

From a methodological point of view, the inventory distinguishes between direct subsidies (directly linked to the consumption of fossil fuels) and indirect subsidies (linked to an activity that is highly dependent on fossil fuels). Two categories of subsidies are established: transfers (amounts directly available in budget documents) and tax expenditures, which are normally included in the Tax Expenditure Report of the FPS Finances. The latter are established on the basis of a benchmark. With regard to excise duty, unlike the Tax Expenditure Report which uses a specific benchmark for each product, the inventory calculates tax expenditure on the basis of a single benchmark for all types of fuel, corresponding to the excise duty on unleaded petrol expressed in ToE or GJ. The principle is: there is no fossil fuel subsidy if the tax rate of a specific energy carrier expressed in ToE or GJ is equivalent to the benchmark.

The main results of the second edition of the inventory show that :

- Excise duties are the main component of direct subsidies. At the end of the 2016-2019 period, these subsidies amount to 2,4% of GDP, or €10.9 billion.
- For excise duties, the two most important elements are the rate differential across products and the specific rates for some products (that are estimated with unleaded petrol as a benchmark).
- The major part of the subsidy concerns gasoil and natural gas.

The sectors receiving subsidies are

- Transport (40% of all fossil fuel subsidies: 20% direct subsidies and 20% indirect subsidies). These include the partial reimbursement of business diesel, fuel cards and the company car scheme.
- Industry (30.2% direct subsidies). These include reduced excise duty on natural gas (industry agreements).
- Buildings (43.8%). Exemption from excise duty on heating oil.
- Agriculture and other activities (6%, a very high figure given the minor role played by agriculture in the Belgian economy).

The NECP requires to reform and/or phase-out these subsidies. The specific objectives of certain subsidies (particularly social subsidies: e.g. the social tariff) will have to be taken into account when recommending reforms, and efforts will have to be made to achieve them by non-environmentally harmful means.

The reform/phasing out :

- Should be contributing to the achievement of Belgium's long term GHG emission reduction targets;
- Is in line with the last Federal government agreement: "Taxation will be analysed with a view to making it more climate and environment friendly");
- Is one of the key topics of a recent academic study: Proposal for a green tax reform academic ([link to the conclusions](#))

The next steps include an extension of the scope of the inventory (feedstocks, but also financial support to fossil fuels and environmentally harmful subsidies).

Maric POST presents [the issuance of sovereign green bonds](#) by the Belgian Debt Agency. The first green bond was issued in 2018, making Belgium the third issuing Member State after France and Poland. The aim was to participate in the green finance movement in general, and to diversify sovereign debt investors. An initial amount of €4.5 billion was issued, and another initial amount of €4.5 billion was issued last year. The total amount of green bonds issued by Belgium now stands at €16.5 billion.

Green bonds are part of the federal government's overall financing. They do not feed into a separate fund. In other words, the expenditure financed by the green bonds follows the normal budgetary process.

So how do you tell the difference between green bonds and other bonds? At the end of the year, the Debt Agency publishes a report establishing a link between the amounts of green bonds issued and the amounts available in the budget as expenditures. It will be ensured that the former are always less than the latter, because there can be no question of issuing green bonds that are not covered by green spending. This also means that the issue of green bonds is limited by the amount of green expenditure identified in the budget. The Debt Agency carries out this exercise at the beginning of each year.

The notion of "greenium" means that countries issuing green bonds expect to sell them at a slightly higher price than normal bonds, because they are intended for certain investors. Issuers expect a comparative advantage because of the additional reporting work required for green bonds. But what we are seeing is that the price difference between conventional bonds and green bonds is really marginal. This raises the question of whether it makes sense for sovereigns to continue issuing green bonds if in the end the price is exactly the same as for normal bonds.

The structure put in place by the Debt Agency includes the following elements:

- The use of proceeds: what are we going to spend this money on?
- Process-related elements: how are we going to select the expenditures ?
- Reporting: allocation part (amounts issued during the year linked with the amounts of eligible green expenditures) and impact part (since 2022; carried out by experts via the FPS Environment).

European developments are having a strong influence. There is increasing talk of aligning eligible expenditure with the taxonomy. The EU green bond standard will also define recommendations in terms of reporting (not only after issuance but also prior to it).

The Debt Agency can only finance Federal expenditure. Most of this (85%) is spent on rail infrastructure and rail transport. These two activities are included in the taxonomy. The "do no significant harm" criterion must also be verified.

It is hoped that the green bond process and any form of green budgeting will work together. This concerns in particular the identification of budget expenditure that could be covered by the green bond.

Jo VERSTEVEN developed the question of whether green/sustainable public procurement could be a case for green budgeting.

Green budgeting means integrating green objectives into budgetary policies. Public procurement, which accounts for around 14% of GDP, plays a substantial role.

Over the last 10 years, European regulations have evolved from "how" to buy to "what" to buy. The mandatory nature of sustainable clauses has also been strengthened.

The report to the King of the royal decree of 21 July 2023 on Federal centralized procurement refers to the aim to achieve savings and efficiency gains in terms of budget, but also to an objective of promoting the sustainability of supplies and services. There is a potential tension between these two objectives for the central buyer. For some buyers, green procurement is more expensive. We now need to ask ourselves whether this "paradigm" is appropriate, and whether the very fact of asking this question is appropriate.

The ex-ante analysis can be seen as a form of impact assessment, preparing evidence for political decisionmakers on the advantages and disadvantages of possible policy options. In 2023, the FPS BOSA, the KU Leuven and the Federal Institute for Sustainable Development (FIDO) have realized a study including an analysis of Federal buying needs (from 2022 to 2025) on a budget of 2,84 billion euros and ranking products and services based on risks for people and the environment, opportunities for social and circular economy and procurement volumes. 61 products and services were analysed and a "sustainable priority product group list" was set up (top-10 and top-20 groups of products and services). This can be considered as an initial tagging methodology, but it is possible to do better in the coming years.

With regard to the ex-post evaluation of public procurement, the speaker made the following observations:

- Procurement data need to be connected with environmental and social indicators (e.g. CO2 reductions, biodiversity indicators, number of people with disabilities involved in construction contracts, in the Brussels Region and in the Walloon Region);
- Indicators are not granular enough (i.e. percentage "green" / "social" procurement);
- The measurement is often on the process and less on the performance;
- A lot of EU regulations refer to green public procurement (batteries, clean vehicles, footprints, ecodesign, ...), but the targets are not very clear (objectives to be reached in the coming years);
- The scope is limited. The procurement cycle is part of a larger cycle that also includes the consumption of products.

To conclude:

- Green and social policies need to be integrated in procurement policy, also looking at the specific products and services;
- Financial plans for specific green and social needs are necessary;
- Category specific (buying-) indicators are needed. For example, the Federal government is buying each year fossil fuel for about 75 million euros. A recent initiative was taken by the OECD.

- Expert capacity is needed