

GREEN BUDGETING IN FRANCE

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**MINISTÈRE
DE L'ÉCONOMIE,
DES FINANCES
ET DE LA SOUVERAINETÉ
INDUSTRIELLE ET NUMÉRIQUE**

*Liberté
Égalité
Fraternité*

Report on the Environmental Impact of the Central Government Budget

#PLF2023

OCTOBER 2022





SUMMARY

I. Context of the implementation of the State's green budget

II. Presentation of the Green budget document

III. The general method

IV. Main results in the 2024 Budget bill

V. From an informative report to a decision-making tool

VI. Strengths, limits and challenges ahead for the green budget



I. Context of the implementation of the State's green budget

I. CONTEXT OF THE IMPLEMENTATION OF THE GREEN BUDGET

Political and social context leading to the creation of the green budget

A political initiative, stemming from :



France's international commitments and obligations

- the 2015 Paris Agreement : reduce carbon emissions by 45% by 2030 and reach carbon neutrality by 2050;
- the European and national commitments on circular economy, water management, pollution reduction, ecosystems preservation...
- the 2017 Paris Collaborative on Green Budgeting ;
- **National parliamentary and public demand for transparency on green transition financing ;**
 - **Acceleration with the yellow jackets crisis (2018)**
- **The need for a single and comprehensive document on public effort in favour of the environmental transition.**



I. CONTEXT OF THE IMPLEMENTATION OF THE GREEN BUDGET

French green budget milestones



- 1) Political commitment – 2017
- 2) The definition of methodology and its use on a sample of the finance law – April-sept. 2019
- 3) Law to anchor the obligation to produce a “green budget” – 2019
- 4) The creation of an inter-ministerial permanent working group led by the budget directorate – 2020



Publication of the first Green budget – September 2020

II. Presentation of the Green budget document

II. PRESENTATION OF THE GREEN BUDGET DOCUMENT

The report is an annex to the finance bill

The report is a new annex to the finance bill

The report is made up of three parts:

I. Environmental budgeting, or “The green budget”

→ It presents the main results of the expenditure tagging process

II. The public & private funding of the ecological transition

→ It gives a consolidated vision of the financing, public and private, mobilized in favor of the ecological transition.

III. Environmental taxation

→ It provides an overview of public resources and taxation of an environmental nature.

→ It sets out the impacts of energy taxation on households and businesses, analyzed using models developed by the CGDD.

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II. PRESENTATION OF THE GREEN BUDGET DOCUMENT

The green budget: already four editions

GOUVERNEMENT
Économie
Finances
Prévisions

Report
on the Environmental
Impact of the Central
Government Budget

#PLF2021
SEPTEMBER 2020



GOUVERNEMENT
Économie
Finances
Prévisions

Rapport
sur l'impact
environnemental
du budget de l'État

#PLF2022
SEPTEMBRE 2021



GOUVERNEMENT
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Rapport
sur l'impact
environnemental
du budget de l'État

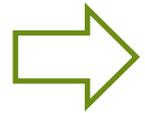
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#PLF2024
OCTOBRE 2023



October 2020 :
1st edition attached to
the finance bill 2021

October 2021 :
2nd edition attached to
the finance bill 2022

October 2022 :
3rd edition attached to
the finance bill 2023

October 2023 :
4th edition attached to
the finance bill 2024

...and so on

➤ Each edition has more quotations and more information

<https://www.budget.gouv.fr/reperes/budget/articles/le-budget-vert-en-france-pour-2021-une-premiere-mondiale>

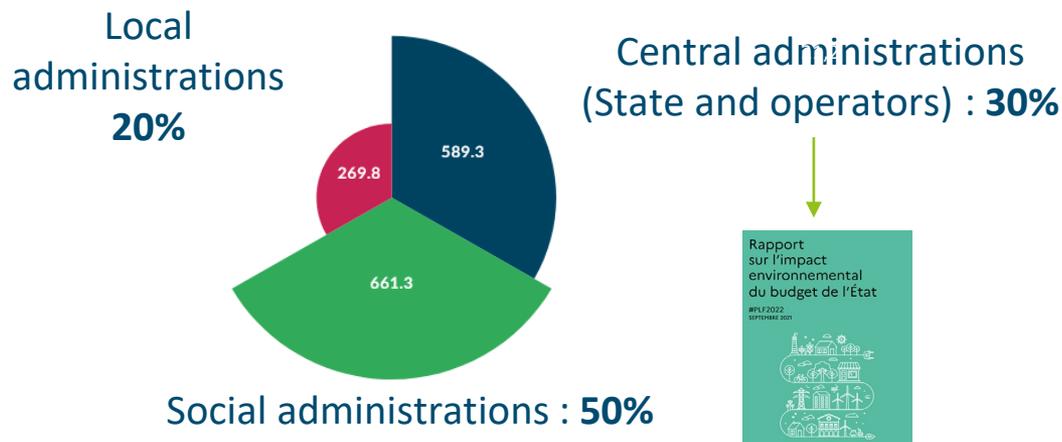
https://www.budget.gouv.fr/reperes/budget_vert/articles/plf-2024-la-4eme-edition-du-budget-vert

II. PRESENTATION OF THE GREEN BUDGET DOCUMENT

A broad scope of analysis

- *In France, public expenditure falls under three distinct sub-sectors*
- It provides an assessment of the environmental impact of **all State budget expenditures** (some exceptions)
- That means **both investment and operation expenditures – 480 bn€ in 2023 (495.1 bn€ in 2022).**
- It **does not cover taxes or other kind of public revenues** but covers **tax expenditures – 89 bn€ in 2023 (91.4 bn€ in 2022)**
- It rates not only expenditures **favorable** to the environment but also expenditures with a **negative** impact

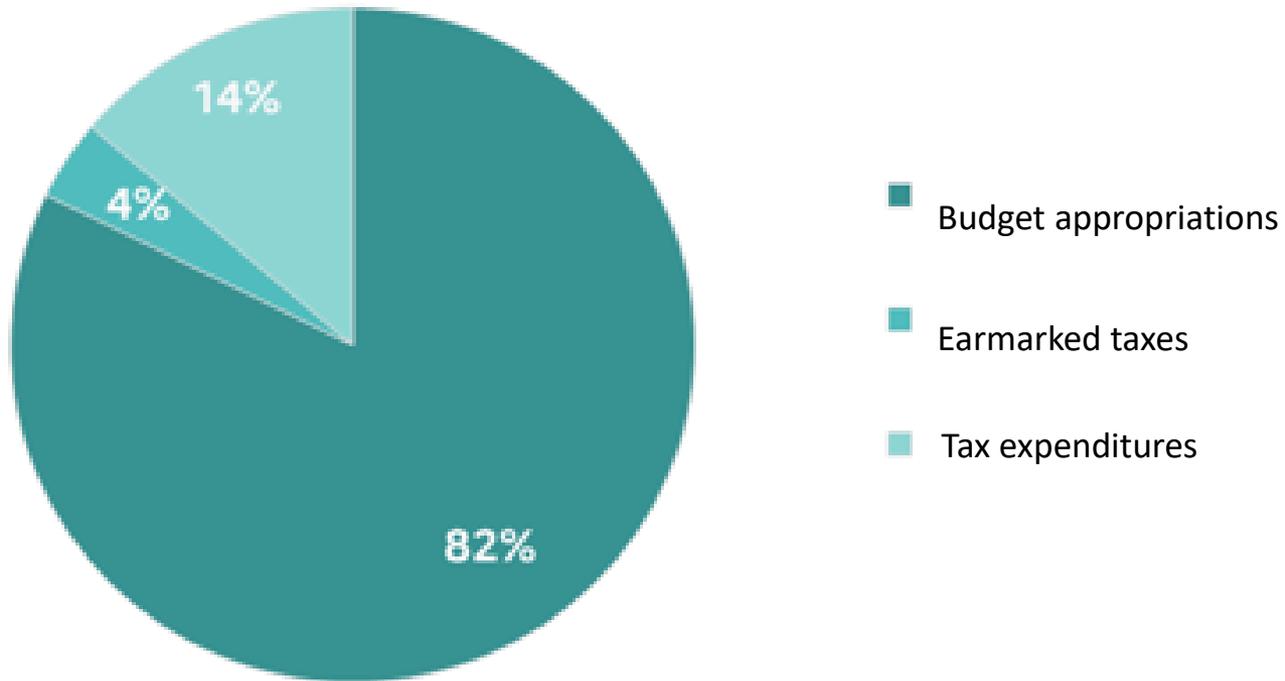
Share of public expenditure
(2020, in M€)



II. PRESENTATION OF THE GREEN BUDGET DOCUMENT

A broad scope of analysis

The rating scope of the green budget



II. PRESENTATION OF THE GREEN BUDGET DOCUMENT

Tools

- An **Excel** for the list of State expenses and their tagging

| Code sub-action | Name | Mitigation | Adaptation | Water | Waste | Pollution | Biodiversity | Global tagging | Initial finance act 2023 (€) | Budget bill 2024 (€) |
|-----------------|--|------------|------------|-------|-------|-----------|--------------|----------------|------------------------------|----------------------|
| 345-17-01 | Exceptional consumer protection measures | -1 | 0 | 0 | 0 | -1 | 0 | Unfavourable | 17 921 640 423 | 2 154 258 647 |
| 345-18-01 | Hydrogen | 3 | 1 | 0 | 0 | 3 | 0 | Favourable | | 25 000 000 |
| 348-12 | Major renovations and maintenance by owner | 3 | 2 | 0 | 0 | 0 | 0 | Favourable | 234 179 029 | 227 774 548 |
| 348-13 | Acquisitions, construction | 2 | 2 | 0 | -1 | 0 | 0 | Mixed | 157 517 941 | 29 003 572 |

- **Word** for document preparation
- A gradual introduction into the **information systems** of the budget department :
 - IS “Unisson” : budget directorate internal tool for the preparation of the budgetary negotiations
 - IS “Tango” : preparation of the finance bill (tool shared with line ministries)
- All data, tagging and their justifications are published in **open data**

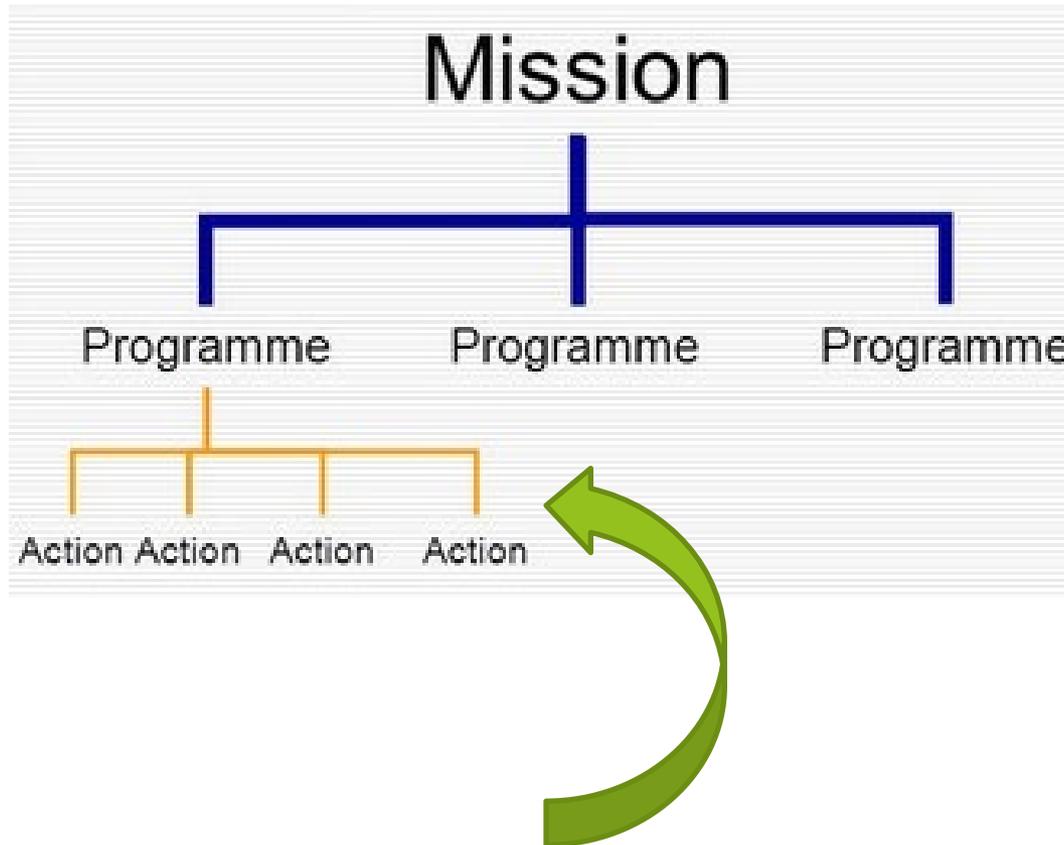
Taggings and figures : <https://www.budget.gouv.fr/documentation/fid-download/67221>

Justifications of taggings : <https://www.budget.gouv.fr/documentation/fid-download/67248>

III. The general method

III. THE GENERAL METHOD

Reminder : The French budgetary « nomenclature » is based on objectives



- The Green budget gives an environmental quotation of each budgetary action of the State budget.

III. THE GENERAL METHOD

The tagging

Each expense (budgetary action) is rated with regard to its impact on 6 environmental objectives :

- (i) the fight against climate change,
- (ii) adaptation to climate change and prevention of natural disasters,
- (iii) the management of water resources,
- (iv) the circular economy, waste and the prevention of technological risks,
- (v) the fight against pollution,
- (vi) biodiversity, and protection of agricultural, forestry and other green areas.



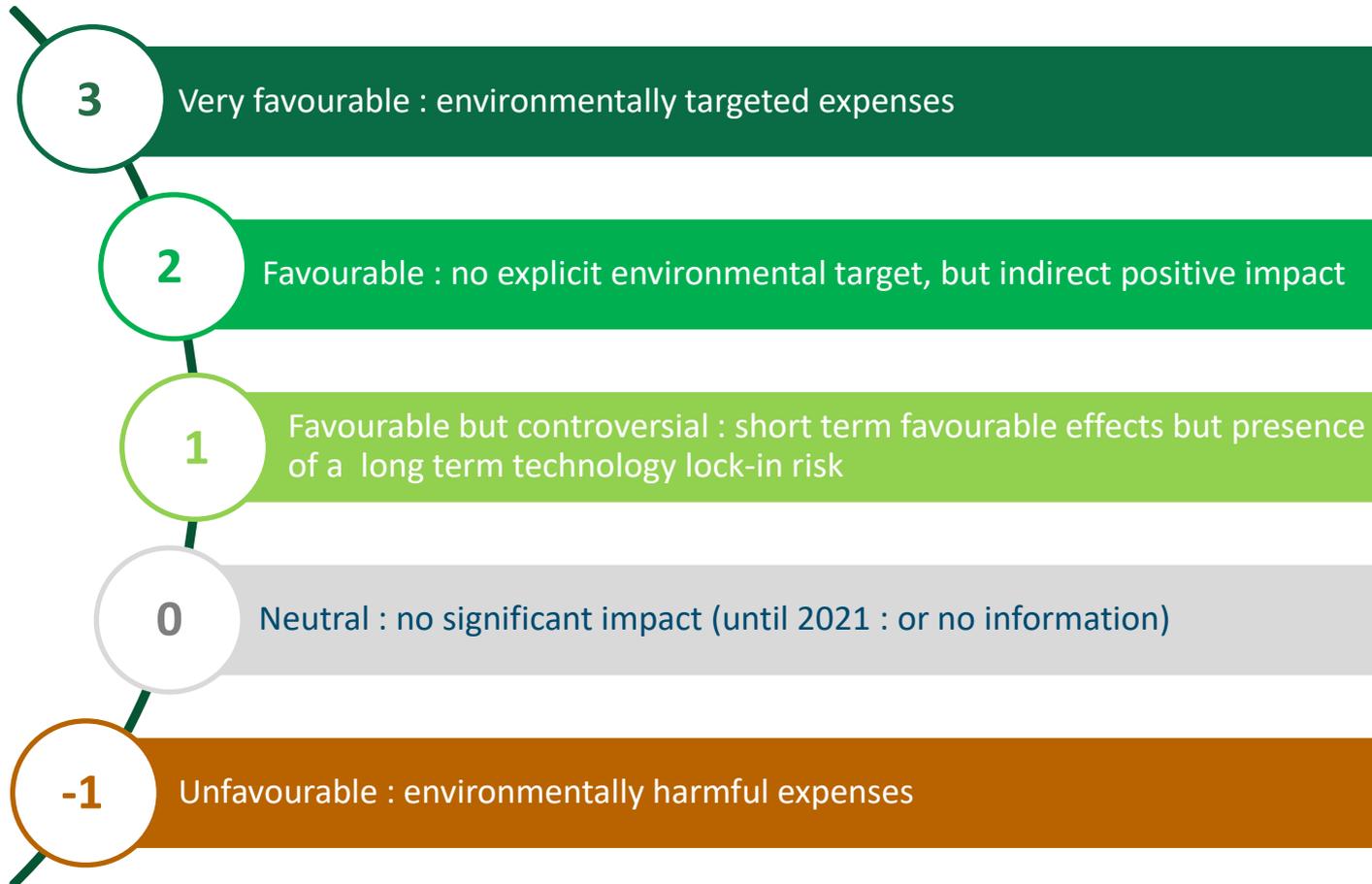
The impact is evaluated taking account the whole life cycle : in particular for transport infrastructures (see later)

III. THE GENERAL METHOD

Fives marks and three colors

Five marks can be given to rate State expenditures : from an unfavorable (-1) to a very favorable (+3) environmental impact.

Information available in the database



Information available in the report



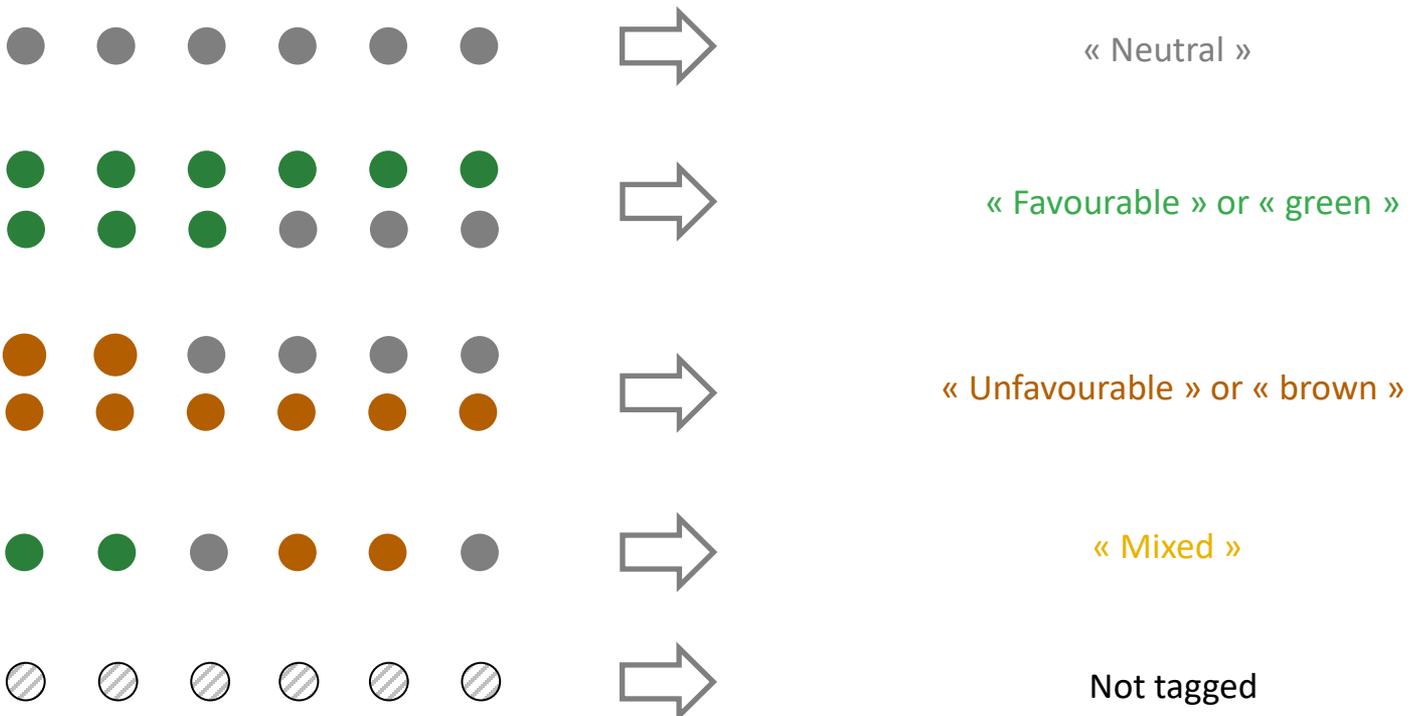
III. THE GENERAL METHOD

A general tagging for each action is given (1/2)

Axis rates lead to a general tagging of each expenditure

Two important rules for the tagging :

- The majority of credits making up an action are taken into account
- Quantitative impact of an expenditure on the environment is never taken into account



III. THE GENERAL METHOD

Tagging for actions, programs and missions

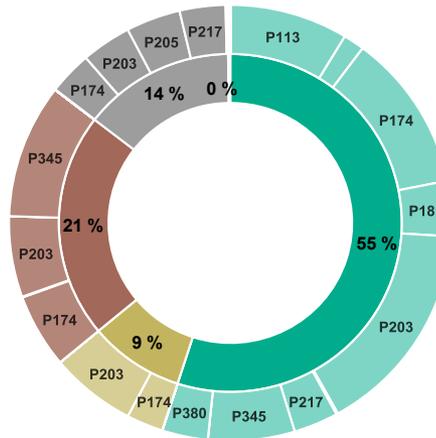
Detail of environmental classifications for **each expense** (budget appropriations, earmarked taxes or tax expenditure)



| Budget appropriations | | Outturn 2021 | 2022 Initial Budget Act | 2023 BB | Climate (Mitigation) | Climate (Adaptation) | Water | Waste | Pollution | Biodiversity | Classification |
|-----------------------|---|--------------|-------------------------|-----------|----------------------|----------------------|-------|-------|-----------|--------------|----------------|
| P174 | Grants for the purchase of green vehicles | €435.1m | €378.0m | €1,145.4m | ● | ● | ● | ● | ● | ● | Favourable |
| P174 | Scrapping subsidies for dirty vehicles | €70.0m | €128.0m | €150.0m | ● | ● | ● | ● | ● | ● | Mixed |
| P203 | Air transport | €40.0m | €91.7m | €72.3m | ● | ● | ● | ● | ● | ● | Unfavourable |

Tagging by axis
Global tagging for a budgetary action

Presentation of the global result for **one fiscal mission (voting unit)** in the final



Budget appropriations and earmarked taxes :

- Favourable : €17.82 bn
- Mixed : €2.31 bn
- Unfavourable : €3.90 bn
- Neutral : €2.79 bn
- Not tagged : €0.07 bn

Tax expenditures :

- Favourable : €0.59 bn
- Mixed : €0.69 bn
- Unfavourable : €3.29 bn
- Neutral : €1.10 bn
- Not tagged : -

Example : Mission ECOLOGY, SUSTAINABLE DEVELOPMENT AND MOBILITY in the 2024 Budget bill

III. THE GENERAL METHOD

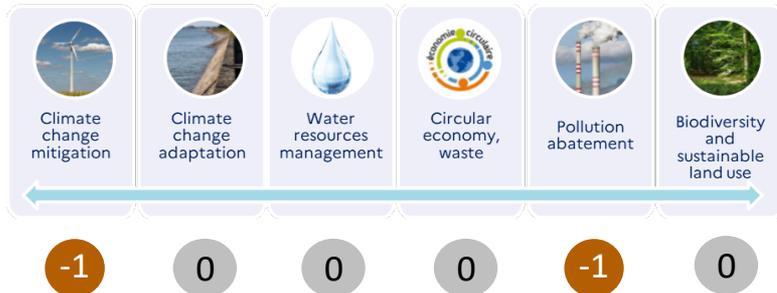
The counterfactual scenarios used to rate the expenses

- **The environmental impact of state spending is not evaluated in absolute terms.** According to the green budget method, the environmental impact of each expenditure is evaluated in relation to a **counterfactual scenario**, that is to say a **fictitious situation** to which the situation resulting from this expenditure is compared. The counterfactual scenario is conceived as :
 - **the absence of expenditure** (in particular in the case of investment expenditure or incentive expenditure such as tax expenditure)
 - **or a lower expenditure** (eg: expenditure relating to a public institution, assuming for example a reduction in resources or staff).

Example :



Reduced tax rates on gasoline consumption (€4,2bn) : unfavorable



- The tax expenditure on fuel tax rates, aimed at farmers, goods transporters and the inhabitants of the French overseas territories, **encourages fuel consumption** (incentive effect through the price at the pump) and therefore the emission of GHG and atmospheric pollutants
 - Without these reduced tax rates, the emission of GHG and atmospheric pollutants would be lower
- the tagging is **unfavorable** on the “climate change mitigation” and “pollution abatement” axis

*Taking as a reference an international environmental convention or national quantified objectives of an environmental policy would not be feasible. Thus, the “green budget” is **not intended to evaluate deviations from a standard or a level of achievement of environmental objectives.***

III. THE GENERAL METHOD

Specific counterfactual scenarios

The working group however used, **where appropriate, more specific counterfactual scenarios, relying on budgetary documents and existing studies** (in particular academic work, CGDD studies, inspection reports or even evaluations socio-economic aspects of infrastructure projects).

Transport



The reference is to the most widespread mode of transport: the combustion-powered private car.

- The “statu quo” will be tagged **neutral** : road maintenance
- Every less polluting transport will be tagged **favorable** : electric cars, rail / river transport
- Every more polluting transport will be tagged **unfavorable** : road transport expansion, air transport
- Specific examples of **mixed** expense : new infrastructures (new railroad lines), scrapping subsidies for dirty vehicles

III. THE GENERAL METHOD

Specific counterfactual scenarios

Regalian State missions : army, justice, security

There is a specific counterfactual scenario for regalian state missions : the absence of expense is not a pertinent reference as the State will always have an army, cops, judges etc.

→ The chosen counterfactual scenario is : “**an equal level of public service**”

→ If the expense can not be replaced by a “greener” one, providing the same level of public service, the expense will be tagged **neutral**.

Example of the Army



Investments as purchase of fighter jets, combat helicopters, aircraft carriers etc : there is no “greener” alternative that would provide the same level of service (there is no electric fighter jets) → tagged **neutral**



Fuel used by ministry staff in Paris : it could be replaced by electric cars → the expense is **unfavorable**.
Unfortunately this type of expenditure is not necessarily identifiable at the level of the budgetary action.

III. THE GENERAL METHOD

Specific counterfactual scenarios

Ratings on the “Waste axis”

- Expenses leading to an accelerated renewal of physical assets (reduction in the average lifespan), and therefore **an additional production of waste compared to a reference scenario without accelerated renewal** (for example the conversion bonus), will be tagged **unfavorable** on the “Waste” axis.

Example : the tagging of the vehicle conversion bonus

- It is rated **unfavourable** on the “Circular economy, waste” axis because it encourages an earlier scrapping of vehicles.
 - But it is rated **favorable** on the “Pollutions” axis, because the counterfactual scenario takes into account the potential absence of this expense, which would lead to maintaining an older fleet of vehicles. → the global tagging of the expense is **mixed**
- Expenses associated with the production and use of assets without a dedicated waste management system are also rated unfavorably

Example : satellite launchers.

III. THE GENERAL METHOD

The use of methodological conventions and the choice not to rate some expenses for lack of data or consensus

If the methodology was quite easily applied for certain expenditures (infrastructure, environment...), **some rules** had to be set to tag other kind of expenses.

- **Expenditures that have an impact on income only are considered neutral** : there is no specific impact on environment.
 - Social transfers to households : family allowances, solidarity income, housing benefit, pensions. This represents a huge part of the State budget : > €150bn
 - But transfers targeted to specific **environmentally friendly** / **unfriendly** usages are tagged **favorably** / **unfavorably** (for example : fuel vouchers).
- **Payroll expenditure has also been classified as neutral**. An exception is made for the payroll expenditures of agencies and administrative authorities with explicit environmental objectives, which are tagged as **favorable** for the objective in question (for example : payroll expenditure of the ministry of ecological transition).
- **General transfers to businesses with no environmental requirements have been classified as neutral**. **But** transfers targeted to specific **environmentally friendly** / **unfriendly** usages are tagged **favorably** / **unfavorably**.

III. THE GENERAL METHOD

The use of methodological conventions and the choice not to rate some expenses for lack of data or consensus

Some expenditure are not tagged :

- **Because of lack of information and data :**
 - State allocations to local authorities : multitude of projects financed ; constitutional principle of free administration of local authorities → impossibility of knowing precisely how the expenditure is used
- **Because there is no scientific consensus on the environmental impact of the expense**
 - Digital technology : the impact of digital technology on the environment is scientifically controversial → most of the digital expenses are not tagged

III. THE GENERAL METHOD

The use of methodological conventions and the choice not to rate some expenses for lack of data or consensus

Certain expenses that cannot be rated using the general method and presented separately from the overall results :

Central government operating expenditures

- > Reasons for the absence of tagging : these expenses represent a tiny part of thousands of different actions
- > Tagged with the general method but with executed figures (page 97 GB 2023 finance bill)



Levy on revenues paid to the European union

- > Reasons for the absence of tagging : the figures are not those of the finance bill
- > Tagged with the EU methodology (page 104 GB 2023 Finance bill)

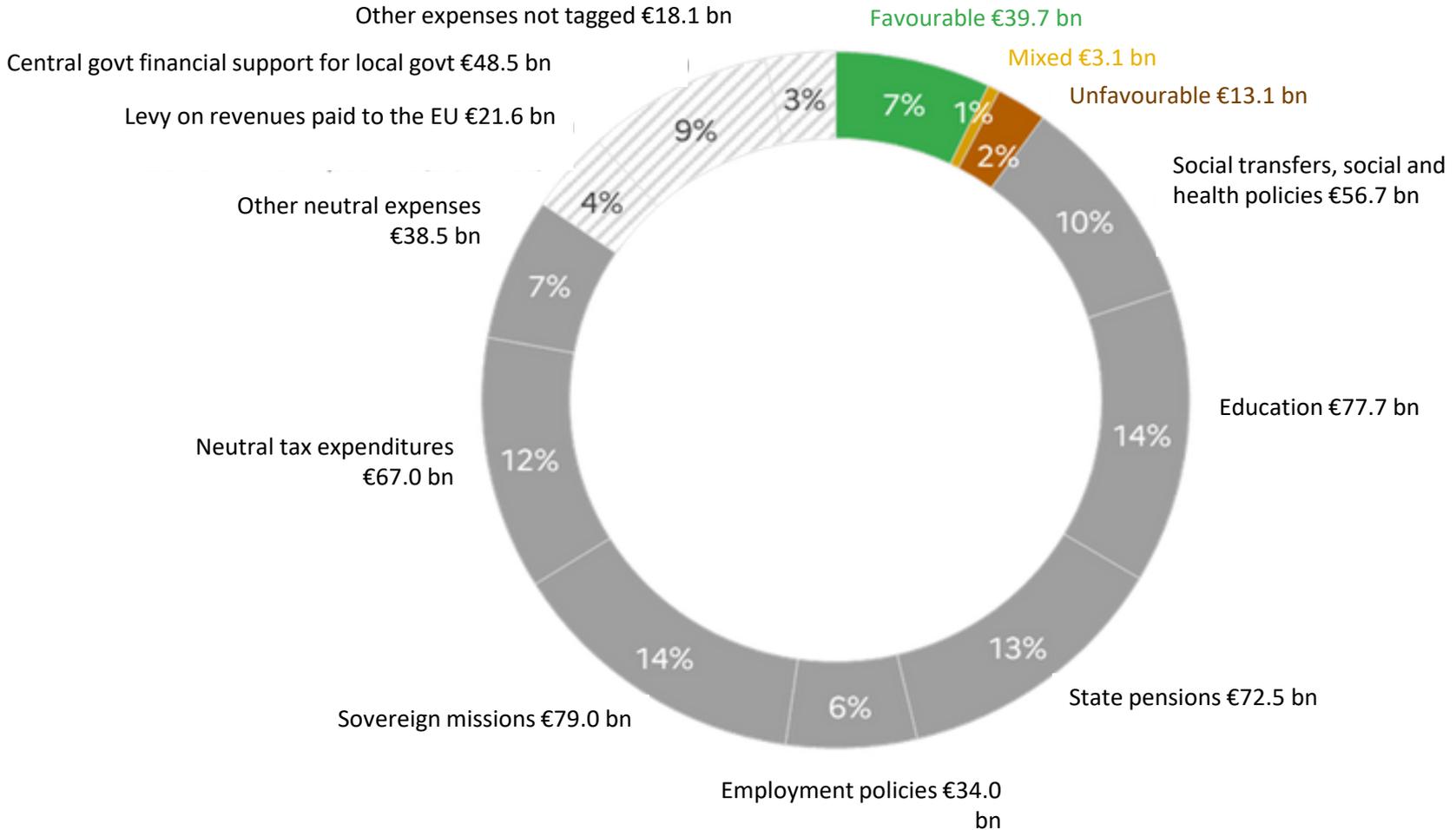


IV. Main results in the 2024 Budget bill



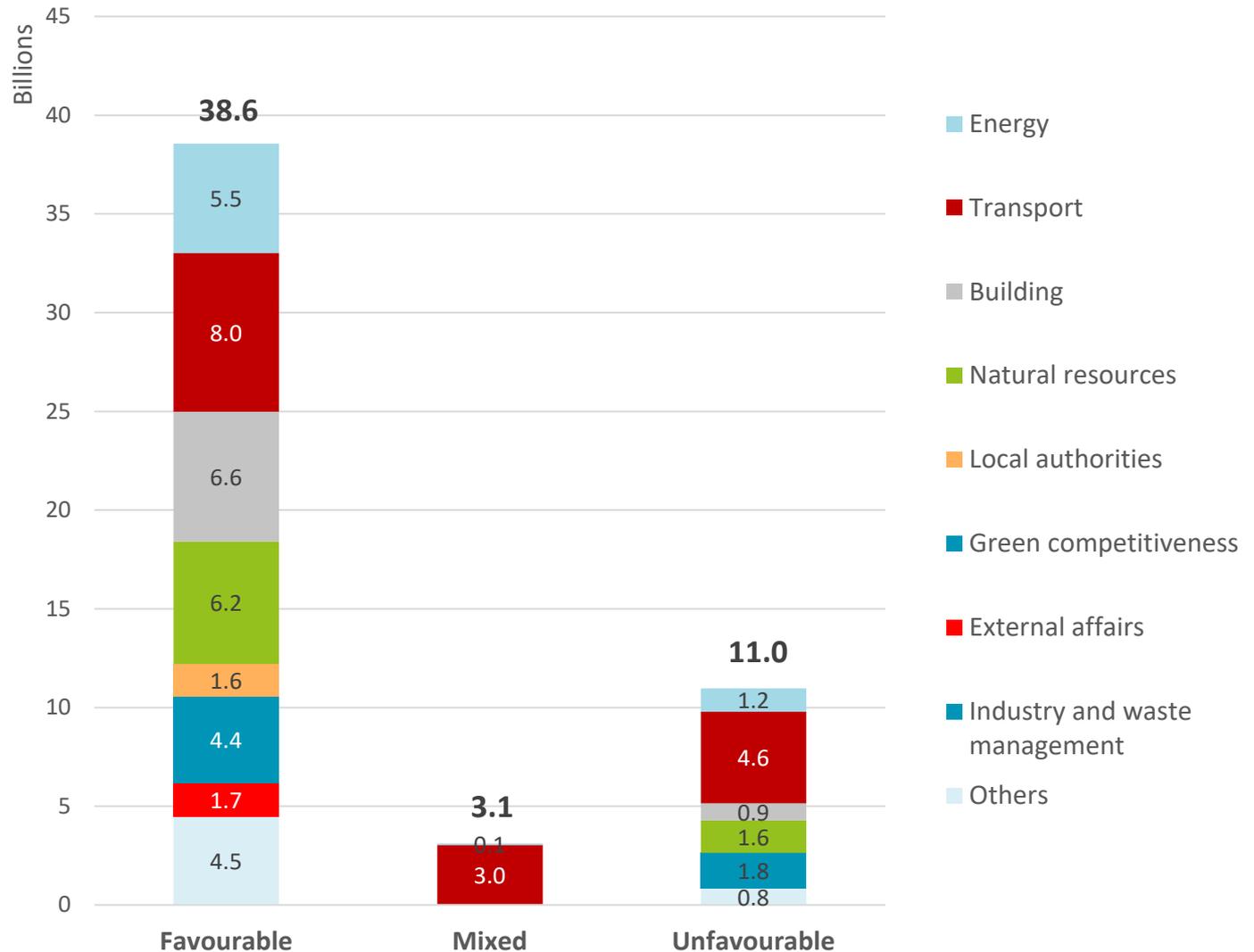
IV. MAIN RESULTS

2024 BUDGET BILL : FRENCH STATE BUDGET



IV. MAIN RESULTS

Results of the green tagging of the central government budget, by category (Budget bill 2024, € bn)



Excluding temporary measures :

- the recovery plan (€1.2 bn favourable)
- measures due to the energy crisis (€2.1 bn unfavourable)

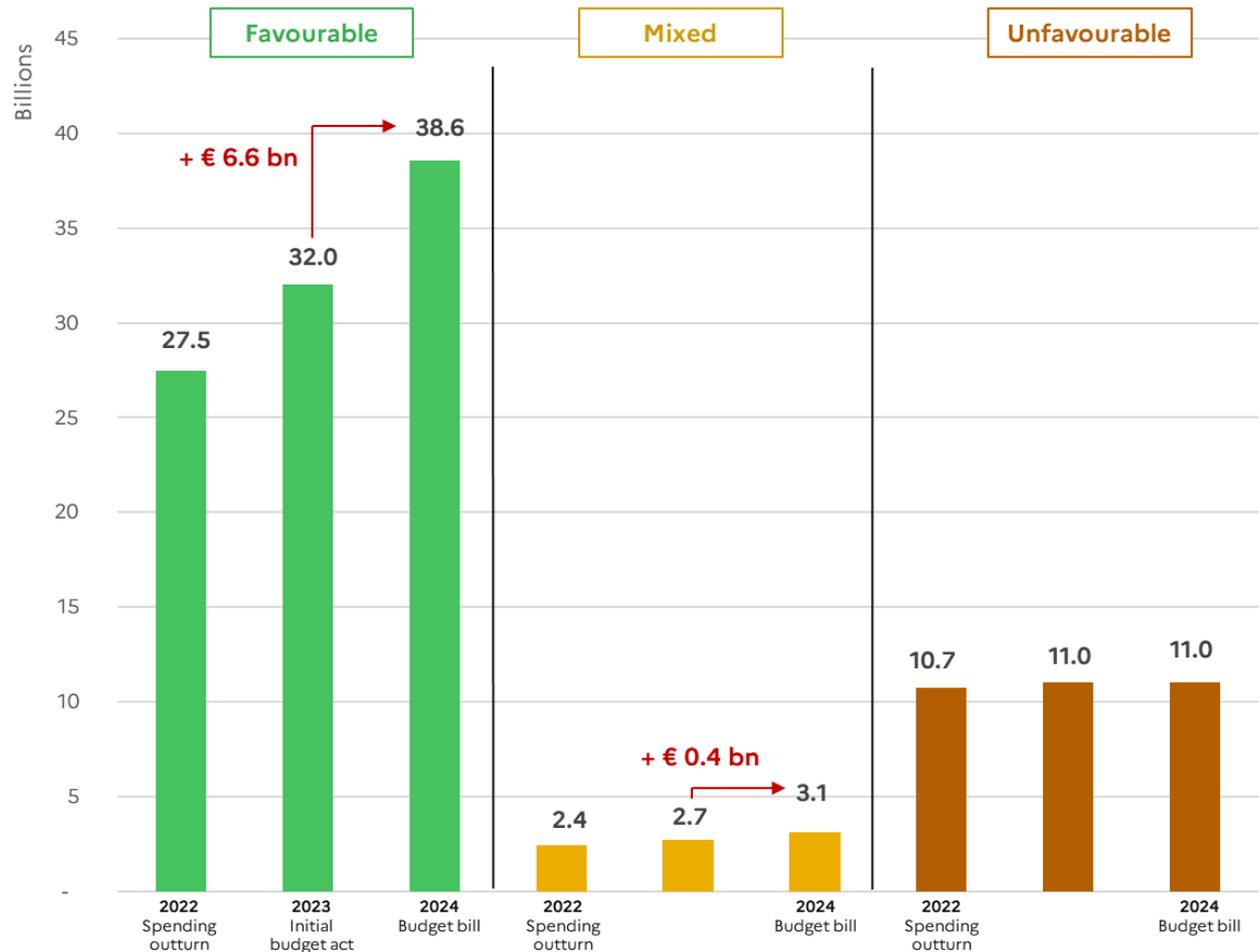
IV. MAIN RESULTS

The Green budget always presents the results of three finance laws.

For the Green budget published in October 2023 :

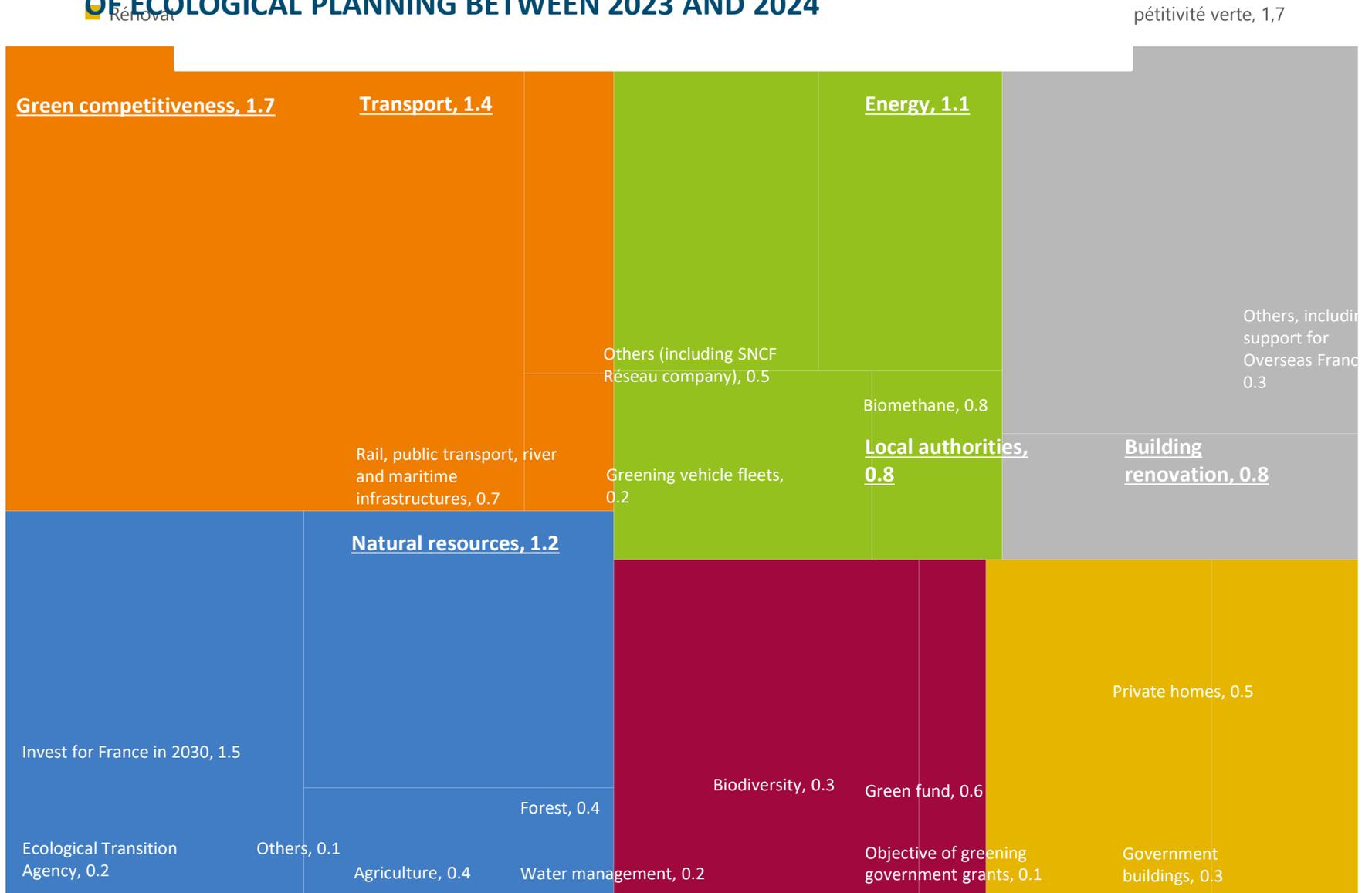
- Budget review act (spending outturn) 2022
- This year budget act : 2023
- Next year budget bill : 2024

A €7 bn increase in green and mixed spending to finance ecological planning



Results for the last edition attached to the 2024 budget bill, excluding the recovery plan and exceptional measures (taken because of the energy crisis since 2022)

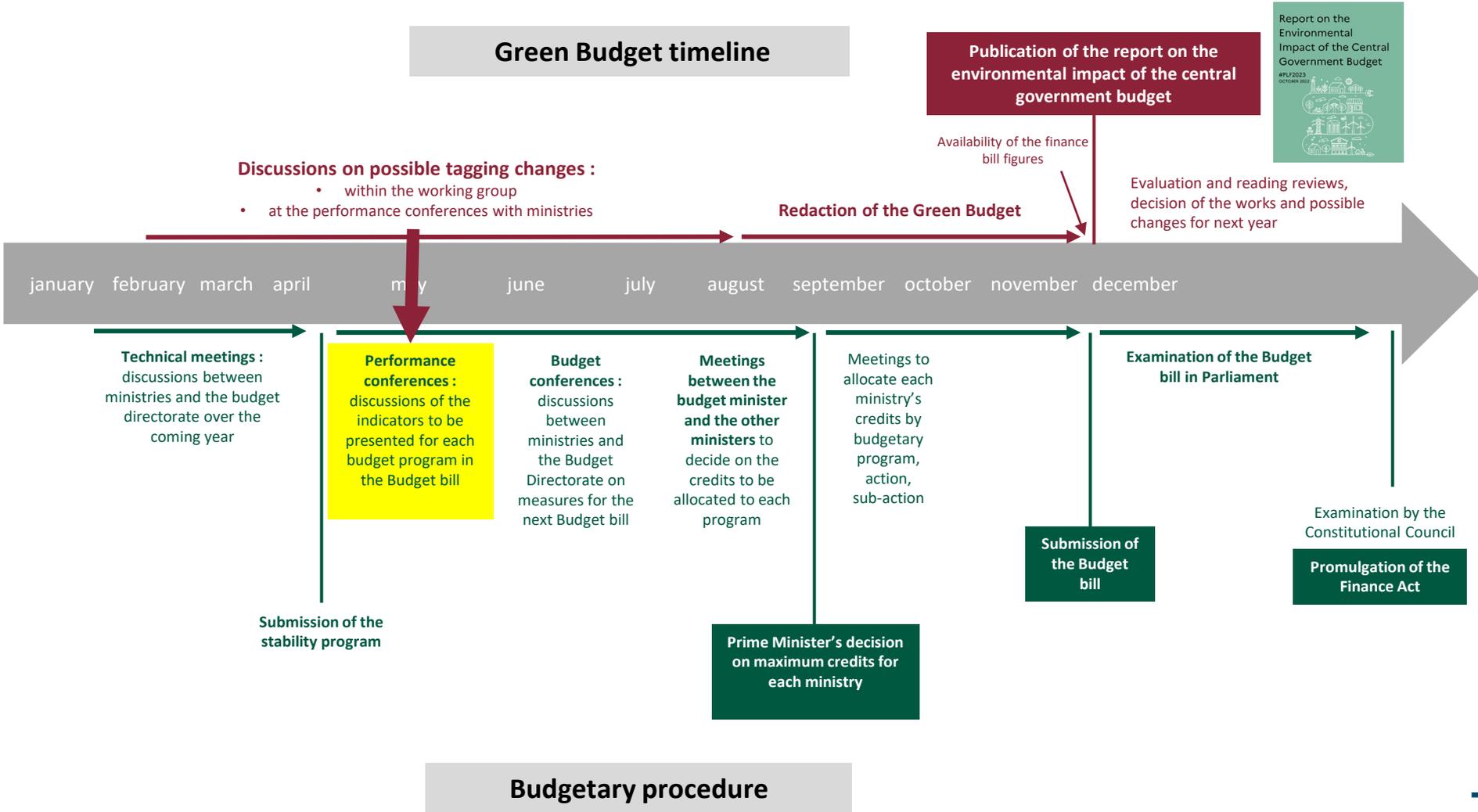
IV. MAIN RESULTS : BREAKDOWN OF THE +€7 BILLION INCREASE IN PAYMENT CREDITS IN FAVOR OF ECOLOGICAL PLANNING BETWEEN 2023 AND 2024



V. From an informative report to a decision-making tool

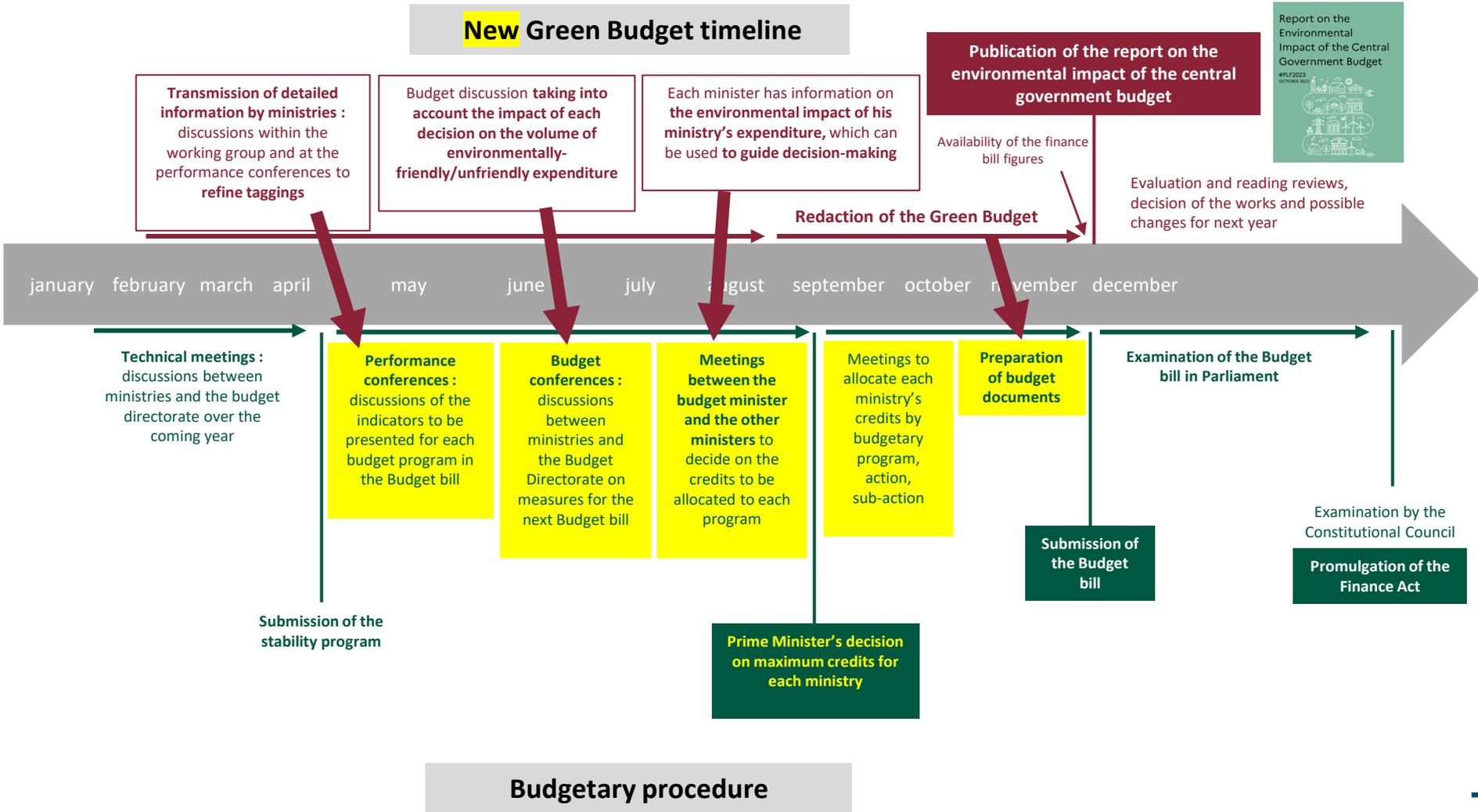
V. FROM AN INFORMATIVE REPORT TO A DECISION-MAKING TOOL

From 2023, introduction of green budgeting at all stages of the budgetary procedure



V. FROM AN INFORMATIVE REPORT TO A DECISION-MAKING TOOL

From 2023, introduction of green budgeting at all stages of the budgetary procedure



V. FROM AN INFORMATIVE REPORT TO A DECISION-MAKING TOOL

A multi-year perspective

The programming law introduces a quantified target for the “greening of the budget”, based on the results of the green budget.

- Law voted this autumn 2023 and which targets a public deficit at -3% of GDP for 2027
- This financial law contains several articles for the French public finances
- One of them sets a target for the environmental expenditures, with the use of the Green budget :

*“a reduction in the environmental impact of the state budget by **reducing by 30% the ratio between expenditure unfavorable to the environment (“brown expenditure”) and expenditure whose impact is favorable or mixed, between the finance Act for 2022 and the finance bill for 2027”***

- *Between the finance act for 2022 and the budget bill for 2024, the ratio has already decreased by 8%*

V. FROM AN INFORMATIVE REPORT TO A DECISION-MAKING TOOL

A multi-year perspective

The programming law for 2023 to 2027 also requires the Government to submit to Parliament, each year, its multi-year strategy for financing the ecological transition

- The green budget alone does not determine the strategy to be adopted, but it does show the starting point.
- It can also be used to map expenditure, giving ideas for future spending trends
→ cf presentation yesterday
- The strategy involves not only the State (which is the scope of the Green Budget), but also local authorities, households and businesses: the task is immense.
- The strategy will get better every year



V. FROM AN INFORMATIVE REPORT TO A DECISION-MAKING TOOL

A green budget for State operators and local authorities

Green budget for State operators

The 2024 budget bill stipulates that all the State's largest operators will have to present their own green budget as of their 2026 budget.

Example of State's operator : the Louvre museum, the National Research Agency etc.

Discussions are underway to define the method that will be used: the Budget Directorate would like it to be as close as possible to that of the French State, so as to enable comparisons to be made.



V. FROM AN INFORMATIVE REPORT TO A DECISION-MAKING TOOL

A green budget for State operators and local authorities

Green budget for local authorities

The 2024 budget bill stipulates that all the largest local authorities (>3,500 inhabitants) will have to present their own green budget as soon as their 2024 budget is completed.

Consultations are underway with associations representing local elected representatives and an interministerial working group was set up at the beginning of 2023 to implement a green budget for local authorities using a comparable method.

→ As in the case of State operators, DB would like local authorities to adopt a method similar to that used by the State.

VI. Strengths, limits and challenges ahead for the green budget



VI. STRENGTHS, LIMITS AND CHALLENGES AHEAD FOR THE GREEN BUDGET

STRENGTHS

- A political commitment to transparency on climate and environmental action.
- A simple and effective method usable with a very large and complex number of expenses.
- A new and scalable method, which has been tested among civil society
- A large set of expenses taken into account.
- A report integrated in the budgetary process, yearly updated.
- A tool for identifying the most important items of expenditure in terms of ecological transition.

LIMITS

- Important number of methodological agreements
- A high proportion of neutral expenditure often criticized.
- Some untagged expenditures because of the lack of certified information.
- Impossibility at this stage to explain all the technological choices in the report for the sake of clarity of presentation.
- Difficulty for the year to year comparison of the fiscal budget and therefore the “Green budget”, due to changes of perimeter.

CHALLENGES

- Associate the green budget with a rule of budgetary governance
- Facilitate the appropriation of this tool by all stakeholders (Members of Parliament, NGO’s, other ministries).
- Reconcile the national methodology with emerging local approaches.
- Become a really integrated decision-making tool.
- Use green budgeting to check that commitments to reallocate brown expenses and to invest in the ecological transition are being met.

Thank you !

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