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Budgeting for the future generations

Interview with Ms. Annika Lindblom

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France has launched a process of elaborating a roadmap for Sustainable Development Goals (SDG) implementation. Within this process, IDDRI is co-piloting a working group for the French Ministry of Environment in which actors have expressed the need to make the national budget and its contribution to sustainable development more readable. An increasing number of countries are experimenting with integrating the SDGs into their budgetary processes.

In this interview, Annika Lindblom, a representative from Finland, one of the most advanced countries in that matter, talks about the way they report on and analyse the contributions and impacts of their national budget

on SDGs.



Annika Lindblom is Counsellor for International Affairs at the Ministry of the Environment of Finland and Secretary-General of the Prime Minister led multi-stakeholder Finnish National Commission on Sustainable Development. She coordinates the national implementation of the 2030 Agenda in cooperation with the Prime Minister's Office.

As the Secretary General of the Sustainable Development Commission in Finland, can you explain what your role entails?

The national commission, led by the Prime Minister, consists of 50 stakeholders, trade unions, NGOs, ministries, and indigenous people. It is a society in mini terms, a perfect place to look at cross-cutting issues, and to mainstream sustainable development into our policymaking. As the Secretary General of the commission, I am based in the Ministry of Environment. My other duties are more environmentally related. I work quite closely with the secretariat in the Prime Minister's office.

Finland has long been known as a pioneer in sustainable development governance. The main topic of our interview today—sustainability budgeting—is another significant leap forward for Finland, which probably did not emerge out of the blue. Please tell us of the background of sustainability governance in your country.

We have had the national commission for 25 years. We have a long tradition of discussing sustainable development within our government and more broadly in the Finnish society. The commission has operated in 10 different governments, led by 7 different Prime Ministers who were from different parties. The 2030 Agenda for Sustainable Development provides us with the opportunity to scale up our work. We felt that a new universal transformative agenda required new mechanisms. The budgetary process is one of them. The Government of Finland adopted an implementation plan in February 2017. We came up with two priorities: (1) carbon-neutral and resource-wise Finland; and (2) non-discriminating, equal and highly skilled Finland. The aim being to include these principles in future government programs and foresight activities.

How did the innovation on sustainability budgeting come about?

In terms of budgeting processes, it started after the UN High Level Political Forum (HLPF) in New York one year ago [July 2017]. The state secretary to the Ministry of Finance led our delegation at the HLPF. He was very inspired by this arena, and thought we needed to do something. He suggested to the Minister to be the frontrunner of sustainability budgeting, and the Minister got excited. In the short policy window, at the end of 2017, they wanted a quick run by asking the Ministries to submit a short budget. After this trial, we will then implement a more comprehensive sustainability budget in 2019.

The Ministry of Finance has been the active partner, taking the initiative from the beginning and organising a workshop attended by more than 100 people from all ministries and research institutes, civil society organization, trade unions and so on. Most importantly, the budget directors from each ministry were invited, and most of them did attend the event. This moved the plan ahead. The workshop provided the basis for the Ministry of Finance and other ministries to launch the process for integrating sustainability issues into the budget.

What are the key ingredients in this new innovation?

The Finnish model entails three different parts. Firstly, the reporting against the sustainable development item comes in the form of the ministries justifying for their main expenditure titles. Each ministry is obliged to report on what the resources allocated for the above-mentioned two priority areas are. This is in the first trial run for the 2018 budget. There are new elements in the 2019 budget, including firstly a whole new section on the general outlook. Ministries can provide further analysis and assessment on one of the sustainability priorities. The decision was to focus on this priority because it was easier to crack, and easier to integrate into the budgeting process. Secondly, this is supplemented by a separate budget review publication, which has an English version online.¹ Finally, there is also a new specific chapter on sustainable development, which summarises the first and second sections.

For this sustainability initiative to succeed, individual ministries have to be willing to participate. How does it actually work for individual ministries?

The more in-depth analysis in the outlook explains how the budget has been developed around the first sustainability priority. It contains an overview, and lays out the appropriations that are in line with the objectives of promoting biodiversity and wellbeing of the environment, bio-economy solutions, and more broadly a low-carbon society in Finland. In the administrative branches of the Ministries of Economy and Energy, Agriculture and Forestry, Transport and Communication, and Environment, it has always been crucial to have a global dimension to our work. A quick assessment of our first sustainability priority at the level of the eight or nine key actions shows that there has been a slight decrease in the 2018 budget allocation compared to previous year. A total of 1.7 billion euros is 95 million less than before. That does not sound positive to the sustainability community.

The ministries provided rationales for a fairly significant drop in public expenditure. It can be explained by the upcoming parliamentary election, which means that projects are concluding and no new money is allocated in this area for continuation. To us, that is quite understandable. Currently, the largest package of measures is related to energy and climate change, for example the production subsidy for renewable energy. There is some money for sustainable economy and clean tech solutions; some for greening of agriculture and environmental compensation scheme.

The Ministry of Finance did not want to look at the appropriations only, but also taxes and harmful subsidies, which may or may not support the Sustainable Development Goals. Taxes on motor vehicles, beverages and waste are considered to support sustainable development, but as the Ministry of Finance has pointed out, it remains unclear

whether some other individual taxes are supportive of sustainable development given that they are difficult to assess. Heat production is a “hot potato” in Finland. Depending on the definitions, Finland sees heat as a source of renewable energy whereas the EU does not. We also have taxes on emissions, which have been modified to support sustainable development.

The sustainability budgeting makes the environmental and social impacts of the budget explicit. It is a fairly radical step, especially for the ministries presumably. Was there much resistance on the taxes and subsidies?

Ministries that do not like to see the section on environmentally harmful subsidies in the budget proposal. Some subsidies are fundamental to economic activities related to agriculture and transport. The resistance became less important over time. We conducted a comprehensive study on environmentally harmful subsidies, which informed the development of this initiative. Our timeline for finalising the budget was tight. The conclusion was that some environmentally harmful subsidies can be justified in social and local economic terms. Therefore, the consensus was that as part of the sustainable development framework, justifications for appropriations could be economic and social in nature.

The amount allocated to environmentally harmful subsidies is twice as large as the appropriations: 3.5 billion euros compared to 1.7 billion. Some subsidies in energy, transport, and agriculture were not supportive of sustainable development. The largest subsidy is in energy taxation that compensates for the indirect costs, making it the single largest environmental harmful subsidy. The lower energy tax is justified in a cold Northern country that relies on energy use to be economically competitive. We have not forgotten that the lower tax on diesel also works against sustainable development.

It is vital to engage the political level. However, if not properly managed, this pro-transparency initiative could fall flat on its face. How did the political level react to this initiative?

The budget proposal was given to the Parliament, which can modify the numbers but the assessment in the general strategy will not be touched by the Parliament. The assessment provides the factual basis on where we are going in terms of sustainability finance. Political leadership and commitment is crucial; it would not have succeeded if it had come from a desk officer in the budgeting office or, similarly, from the Ministry of Environment. Most crucial is that the ownership lies with the Ministry of Finance with the support and advocacy from the Minister himself.

We also made the point of being pragmatic. The initiative does not have to be perfect from the start. Some stakeholders have never heard of sustainable development and had to be educated over time. With some progress, we will improve on our model later. The budget directors were strategically included as close to the development as possible. To realise the whole-of-society approach, the civil society knew that this has been in the pipeline all along the way and pressured the Ministry as they monitored the progress. Now that the sustainability statements are in the budget, we hope the budgetary decisions will increasingly account for these statements. We are not done yet and there is intention to continue this initiative for the 2020 budget. We will have a new government and we never know what will happen. However, it will be a surprise that the upcoming government does not continue this and make it even more impactful.

1 Budget Review 2018 <https://vm.fi/documents/10623/3856530/Budget+review+2018%2C+January+2018/26a46c9f-d49e-4433-9185-2098e095ce85?version=1.0>

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