

The green transition in public finance – is the state greenwashing

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Background

- Finland is committed to climate and biodiversity action: The national Climate Act states that Finland will be carbon neutral by 2035. Commitments to the EU Biodiversity Strategy and the Kunming-Montreal global biodiversity framework oblige to protect and restore nature.
- Investments of up to EUR 240 billion will be needed by 2050 to achieve Finland's climate objectives, corresponding to EUR 8 billion a year.
- There is a recognized need to both speed up investments supporting the green transition and remain frugal in public spending. This will require leveraging private sector support.
- Private sector is way ahead in greening finance due to market, customer, and legislative pressures.

State of play

- In order to mobilize green transition finance, governance instruments need coherence. Sustainability risks should be taken into account also in public finances.
- The scale of harmful subsidies sends a confusing signal to markets, while also reduces incentives for reforms needed on the path to sustainable economic growth.
- Many public funding instruments have a potential role in the promotion of horizontal green transition objectives. No single instrument suffices to cover the investment needs.
- Public special assignment companies are geared towards their old mandates without integration of contemporary green transition objectives.

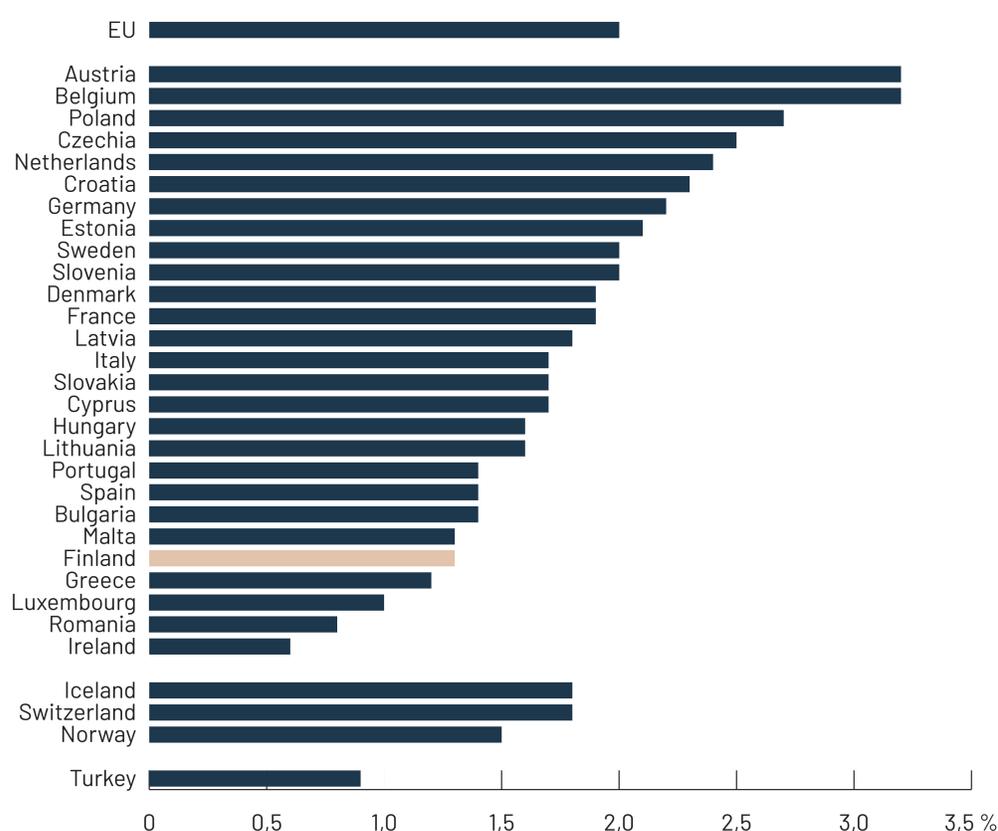


Figure: National expenditure on environmental protection, 2019 (% of GDP)

Source: Eurostat, Environmental Protection Expenditure Account, 2021



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DNSH: opportunity for budget reform

- European Commission's MFF 2021–2027 already supports Do no significant harm (DNSH) as a principle to enhance greening the semester.
- Similarly different EU funding instruments that member states implement have started to recognize DNSH as a necessary tool to mitigate significant environmental harm.
- Finland is at the forefront in learning to use DNSH as a framework to support financial decision-making, see e.g. case box.
- Some member states are exploring to utilise DNSH as part of green budgeting measures.

Case: Priority permitting for green transition investments

- A temporary priority treatment for certain green transition projects was passed in Parliament in late 2022.
- Activities that are aligned with the DNSH principle can be given priority in the permit processing of Regional State Administrative Agencies in 2023–2026 and in the administrative courts in 2023–2028.
- The legislation promotes the objective to be the world's first fossil-free welfare society. The legislation is also linked to the objective of strengthening Finland's role as a leader in the circular economy and halting the decline of biodiversity. The legislation supports sustainable economic growth through the impact of low-carbon production.
- Its key objective is to promote green transition investments by speeding up the processing of the relevant permit applications under the Environmental Protection Act and the Water Act. Granting of the fast-track permitting requires that the applicant provides a DNSH-assessment approved by the authorities



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