



Environmental Fiscal Reform

**An introduction taken from: “A Practice-Orientated
Training for Policy Makers,
Administration Officials, Consultants and NGO
Representatives**

GGKP Asia WS Bogor

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Structure of this presentation

1. EFR in theory
– definitions and concepts
2. EFR in different contexts- country examples
3. The EFR policy cycle



OECD / DAC (2005)

“Environmental fiscal reform” (EFR) refers to a range of taxation and pricing measures which can raise fiscal revenues while furthering environmental goals.”

“EFR can contribute to poverty reduction *directly* by helping address environmental problems...and *indirectly* by generating or freeing up resources for anti-poverty programmes...or for pro-poor investments...”

“EFR is an important part of the development policy toolkit.”



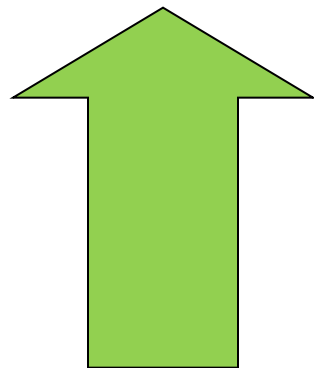
European Environment Agency (2005)

Environmental fiscal reform (EFR) is a broader approach, which focuses not just on shifting taxes and tax burdens, but also on **reforming economically motivated subsidies**, some of which are **harmful to the environment** and may have outlived their rationale.



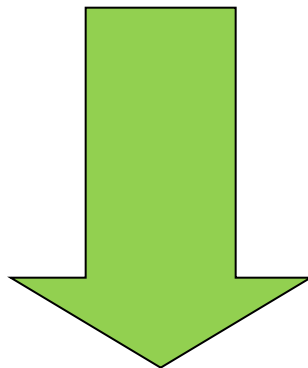
... and reform subsidies

Welfare gains through Environmental Tax Reform (ETR) and Environmental Fiscal Reform (EFR)



Increased fiscal burden on products and services that create 'external' costs, e.g. tax on energy.

Increased green subsidies.



Decreased fiscal burden on labour, capital, sustainable consumption.

Reformed environmentally harmful subsidies.

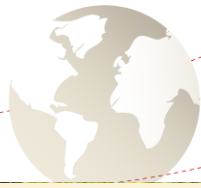
An EFR can result in overall..:

- .. decreased fiscal burden
- .. unchanged fiscal burden ('revenue neutral')
- .. higher fiscal burden (allowing for higher public spending)



EFR supports the implementation of...

- Polluter Pays Principle
- User Pays Principle
- Sustainable Development Principle
- Prevention and Precautionary Principles
- Modern integrated pollution prevention and control instruments
- Promotion of environmental technologies, environmental industry and technological innovation



EFR can assign a price to public goods





Internalising externalities (“hidden costs”)





Selected possible results of EFR

...if properly designed and implemented...

welfare gains - greener economy

environment

economy

social

less pollution
and waste

better resource
efficiency

lower
externalities,
internalized
externalities

technological
modernization,
innovation

improved fiscal
system, less
market
distortions

lower work
cost, higher
employment

poverty
alleviation

operation



EFR in developing and emerging economies- fiscal structure context

1. Tax structure

- tax revenues low as % of GDP
- direct taxes on income less important
- revenue from taxes on goods and services important
- import and customs duties significant source of revenue
- large informal sector

2. Institutional and legal frameworks often inefficient

- lack of sound financial governance
- tax collection mechanisms do not always function

3. Cost coverage for electricity and water supplies not secured in many countries



...different implementing conditions for EFR give rise to different questions

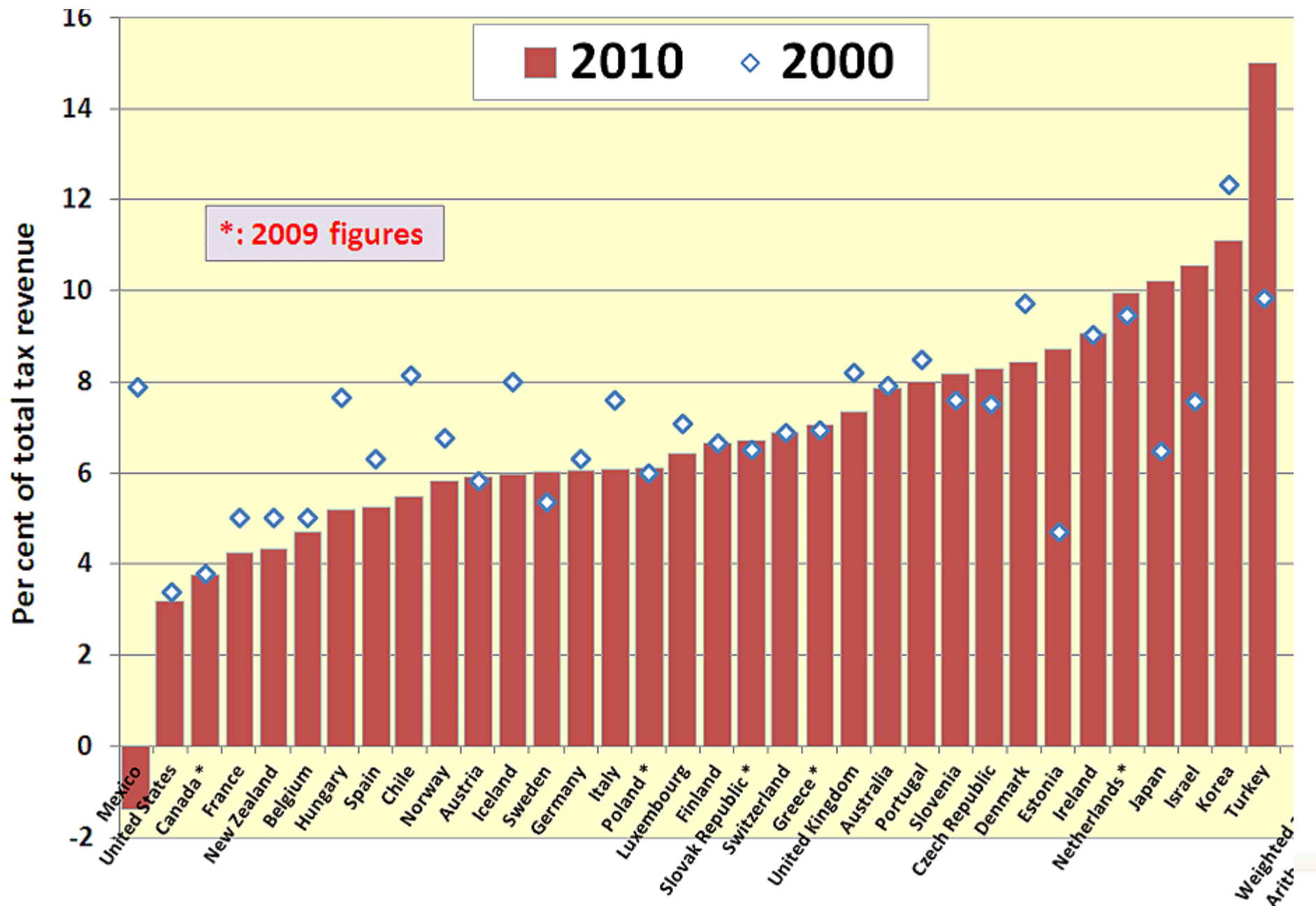
1. How can total government revenues be increased?
2. Which tax collection mechanisms already function well?
3. How can EFR instruments contribute to improving collection mechanisms?
4. How can wasteful spending, e.g. on harmful subsidies, be phased out or kept to a minimum?
5. How can the effectiveness of a new EFR policy instrument be secured by intelligent policy design?

commissioned by



Federal Ministry
for Economic Cooperation
and Development

Environmental taxation % of total tax revenues (2010)





Vietnam

- 2004- Decision for a new law on environmental taxation to be introduced by 2012
- 1st Country in Asia to implement a comprehensive EFR
- Taxes on energy, pesticides and plastic
- Approx. 1.5 Mill EUR expected revenue for 2012
- Continuous support by GIZ



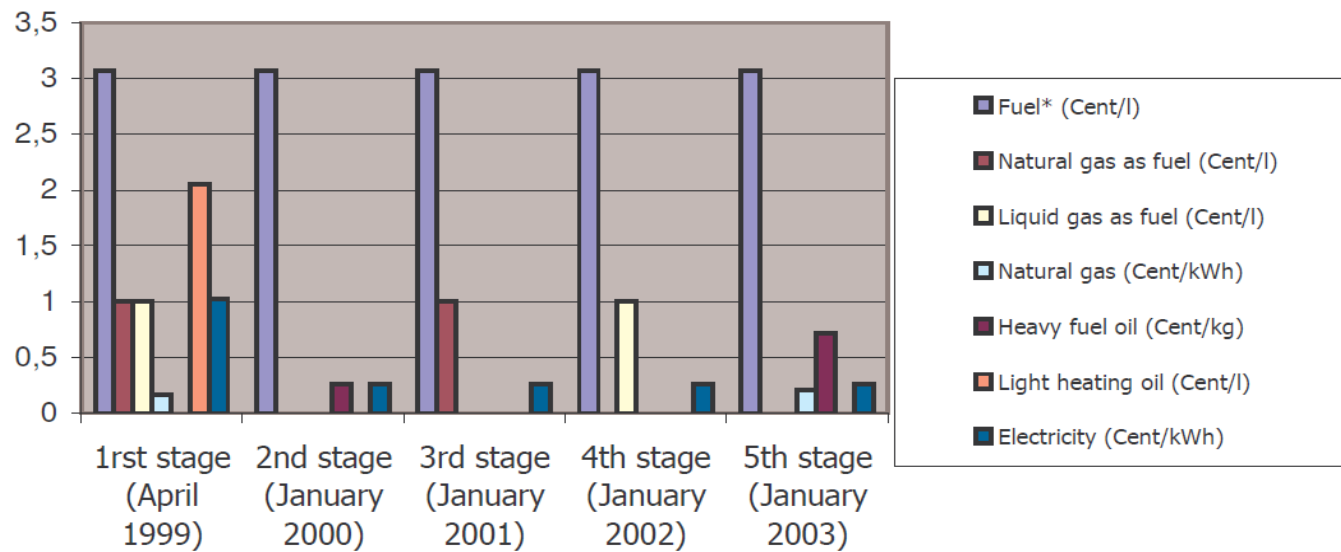
Germany

- Main objectives: ***double dividend***
 - Protect the environment- incentives energy efficiency and the use of renewable energy
 - Create Jobs - relieve the financial pressure on the public pension scheme and lower the non wage labour costs
- Revenues: 18,7 billion EUR -90% into pension scheme- revenue neutral,
- Objectives achieved plus a positive contribution to green growth, but:
- No clear public understanding of the link between rises in energy prices and the cost reduction of work



5 steps of the German ETR

Fig. 1: Rates of increase as part of the ecological tax reform



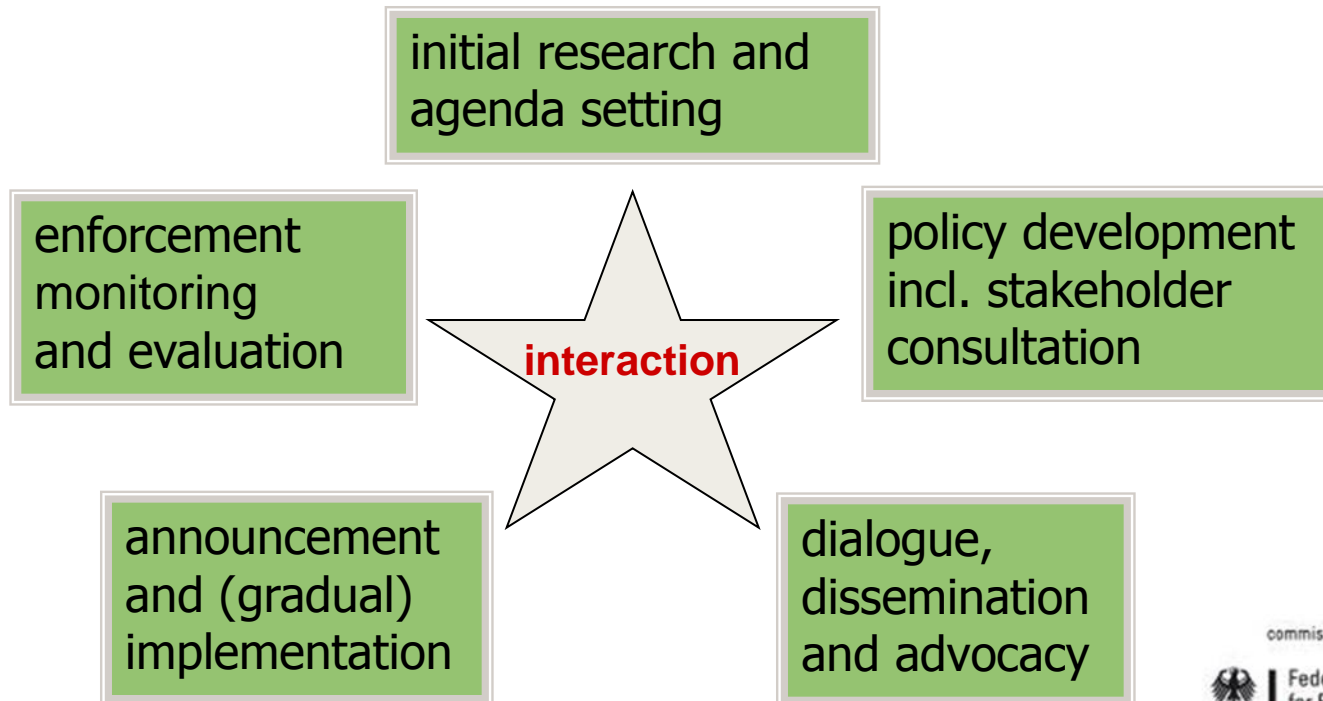


EFR- Factors of Success

- Political Coherence- coordination among relevant ministries
- Multi-Stakeholder Approach
- Progressive rates, multi step approaches- flexible adjustment of changing framework conditions over time
- Compensatory measures- no negative effects on the poor
- **Good Communication** leads to acceptance.
- Policy Mix: economic and „command and control instruments



The EFR policy cycle (OECD/DAC)





THANK YOU FOR YOUR
ATTENTION!

- ANY QUESTIONS?



Contact

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