Mobilizing domestic resources and aligning prices for the Paris Climate Agreement

International experiences with green fiscal policies, carbon taxes and incentives for low carbon development

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Presentation outline

- Background
- Role of green fiscal policies
- Insights from international experiences
- Smart design principles
- UN Environment work on green fiscal policies
- Green Fiscal Policy Network

Background – Misaligned prices and practices

Environmental and social costs of using resources is often neglected in our economies:

- Energy is underpriced
- Carbon and other pollutants are emitted without charge
- Fossil fuels benefit from large subsidies – over US$ 400 billion globally in 2015

How can green fiscal policies help?

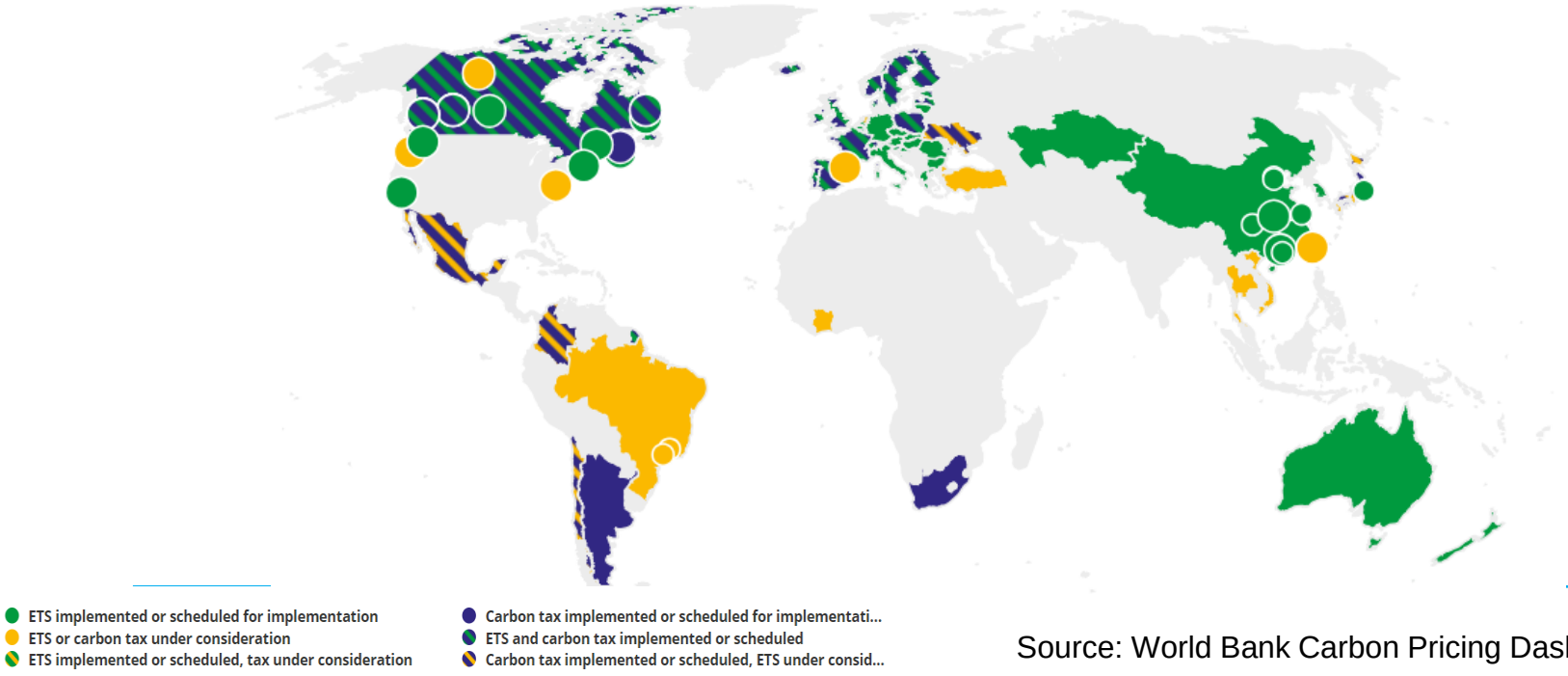
Fiscal and budgetary policies are important tools to support low carbon development:

- **Incentives to shift behaviour** towards more sustainable patterns
- **Mobilize domestic revenues** & create fiscal space
- **Align government expenditures** with environmental goals & **enhance effectiveness of public spending**

Green fiscal policies can support the Paris Agreement

- Nearly 80 countries included some form of fiscal policies in their NDCs
- Commitments to reform inefficient fossil fuel subsidies – G20, APEC, SDG12
- 51 carbon pricing initiatives in place or planned, including 26 carbon taxes

Figure 1: Summary map of carbon pricing initiatives



Source: World Bank Carbon Pricing Dashboard

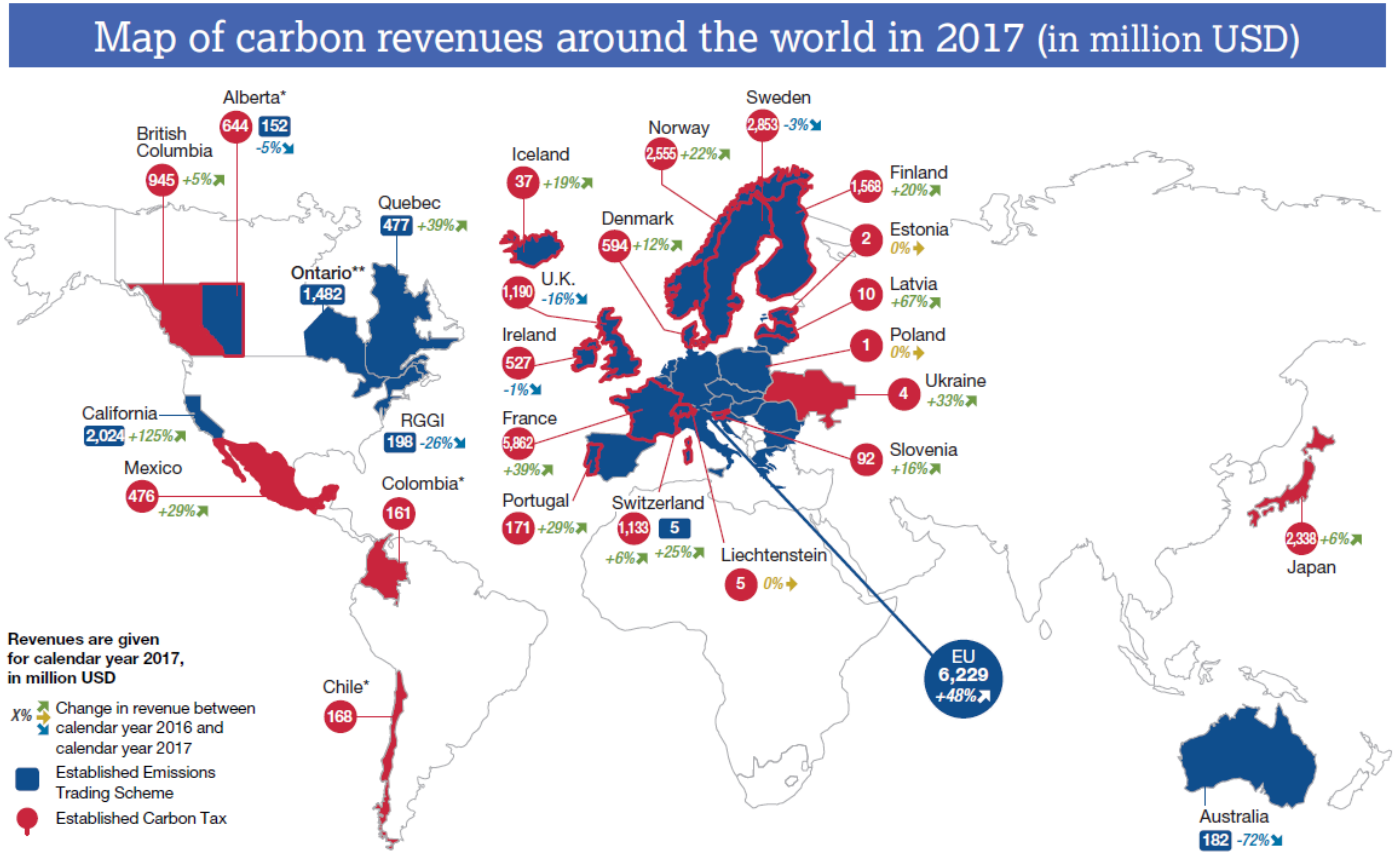
Fiscal instruments in the NDCs

- **Carbon pricing** (e.g. China, Chile, Colombia, India, Mexico, South Africa, EU Member States)
- **Reforms to fossil fuel subsidies** (e.g. Burkina Faso, Egypt, Ghana, India, Iran, Morocco, Sierra Leone, UAE, Vietnam)
- **Subsidies and incentives for renewable energy** (e.g. Barbados, China, Ghana, Grenada, Guyana, Lao PDR, Nepal, Thailand, Vietnam)
- **Incentives for energy efficiency** (e.g. Namibia, Nepal, Grenada, Guyana, Rwanda, Senegal, Singapore, India, Vietnam)
- **Fiscal incentives in the transport sector** (e.g. Barbados, Chile, Guatemala, Korea, Mongolia, Nepal, St. Lucia, St. Vincent & Grenadines, Sri Lanka, Thailand)
- **Environment/climate funds** (e.g. Antigua & Barbuda, India, Rwanda, Tunisia)

…and support delivery of several SDGs

Green fiscal policies mobilize public revenues…

Governments raised US$ 33 billion from carbon pricing instruments in 2017



* New carbon pricing instrument, 2017 is the first year for which revenue is generated.
** The ETS in Ontario was cancelled in 2018.

Source: I4CE – Institute for Climate Economics with data from World Bank, government officials and public information, October 2018.

…and help reform inefficient public spending

- Removing **fossil fuel subsidies** would reduce CO2 emissions by +20% and premature deaths from air pollution by 55%, while freeing up US$ 3 trillion of public revenues

- Reducing **agricultural subsidies** would reduce environmental impacts, correct food prices, and shift practices towards more sustainable food systems

- Reforming **fisheries subsidies** would allow global fish stocks to recover and increase profitability in the sector from US$ 3 billion to US$ 86 billion/year

Using revenues from green fiscal policies

- Allocate to **general budget** (e.g. Ireland, Chile)
- **Tax shift / broader fiscal reform** (e.g. Sweden, Germany, Argentina)
- **Earmark** for climate/environment/other priorities (e.g. India, Indonesia)
- **Recycle revenues to affected groups** (e.g. British Colombia, Ghana, Switzerland)

Green fiscal policies help shift behaviour

Support cleaner transport:

- In **Sri Lanka** a diversified tax system led to a significant increase in hybrid vehicles
- In **Mauritius** a previous feebate and current vehicle taxes linked to CO2 emissions has significantly improved vehicle efficiency
- In **China,** public offices receive price subsidies for procuring low-carbon vehicles
- In **Chile,** a tax on new light and mid-size vehicles takes into account NOx emissions and urban performance

Encourage energy efficiency

In **Egypt,** fossil fuel subsidy reforms catalyzed demand for energy efficient appliances and reduced peak load. Fiscal savings enabled the government to increase spending on education and health.

Mobilize private finance for green investment

- In **India,** tax free infrastructure bonds for renewables encouraged growth
- In **Morocco,** fossil fuel subsidy reform incentivised private investment in renewables

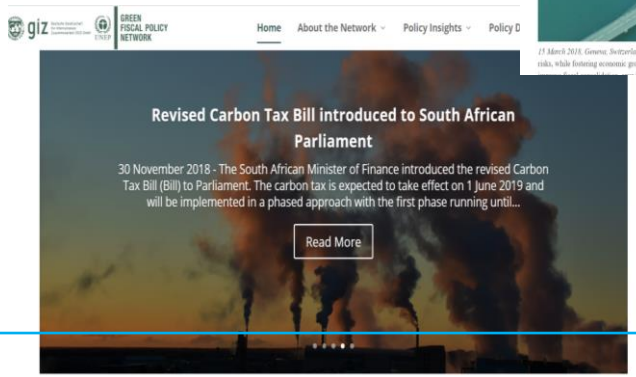
Careful design is key

Implementing green fiscal policies can be challenging & should be:

- Accompanied by **targeted compensation/mitigation measures**
- Implemented alongside **complementary policies** as part of a broader reform package
- Supported by clear **communication & stakeholder dialogue**
- Regular, transparent **monitoring and review system**

UN Environment work on green fiscal policies

- Policy advice and support
- Global research
- Knowledge sharing & dissemination
- Policy dialogue
- Training & technical assistance



- Promotes **knowledge sharing & dialogue** on green fiscal policies

- Provides an online platform for sharing resources and organizes regular high-level events and technical regional workshops

- Works with several **associated partners** to enable wider outreach and knowledge sharing

Founding partners

Associated partners

GREEN
FISCAL POLICY
NETWORK

Thank you

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Additional information and links

- http://www.greenfiscalpolicy.org/
- https://www.unenvironment.org/explore-topics/green-economy/what-we-do/economic-and-fiscal-policy/fiscal-policy
- https://www.youtube.com/watch?v=V7uEKN7lhw8