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You asked about Germany's experience with environmental fiscal reform and GIZ experience in Asia and the Pacific.

For those who do not know GIZ, GIZ is a company that is owned by the Federal Republic of Germany and implements a large part of German developmental and international cooperation. But GIZ implements as well programs on behalf of other donors.

Environmental fiscal reform is a topic that developed in Germany from the years 1999 onwards and represents a policy shift from the taxing of labor towards the taxing of the use of natural resources. In more general terms we understand by environmental fiscal reform a process where fiscal policy instruments are used in order to make sure that prices for the use of natural resources reflect the cost to society. As the use of natural resources is quite often accompanied by negative external effects, for example pollution, taxes or charges may increase the market price of the resource in order to internalize the negative external effects. The catchword here is "*Environmental protection tax*". And if resources are offered at a subsidized price that is even lower than the market price, these subsidies should decrease. The catchword here is "*fossil fuel subsidy reform*".

But a third argument is of increasing importance, and this reflects the specific German experience mentioned before. Government income is necessary in order to fulfill the many important tasks of government. How this income is generated, influences on the economic development of a country, for example on employment and growth. Taxes that increase the price on labor have negative impacts on employment; taxes on capital quite often may result in capital moving out of the country. Taxes on the use of natural resources as well have a negative impact on the use of natural resources, but this a desirable policy outcome. The catchphrase here is: *Tax the use of natural resources instead labor or capital!* I feel that this aspect is of increasing importance in a situation where with the Addis Ababa declaration a new focus is laid on domestic resource mobilization. Additionally many developing and emerging countries undergo a process of international integration, which implies a structural shift in the tax income, decreasing the income from international trade; this may be compensated by environmental protection taxes.

From a policy design point of view, it may be advisable to first introduce an environmental protection tax in a tax income neutral way, offsetting proceeds through the tax by decreases in other taxes, for example on income. Later

environmental protection tax may be increased if higher tax income is deemed necessary, as a tax that has good economic performance.

This is in a nutshell the GIZ approach towards environmental fiscal reform. GIZ implements currently 30 programs in Africa, Asia and Latin America with a budget of around \$40 million Euros in the area of Good Financial Governance. In some of these programs environmental fiscal reform is included. But as well in other programs, as for example in some of the programs supporting the implementation of the results of the Paris agreement in our partner countries this topic may be included. In addition GIZ participates on behalf of the German government in international activities in the field of environmental fiscal reform, as for example

- The Green Fiscal Policy Network (GFPN)
- The Carbon Pricing Leadership Coalition or the
- The Poverty Environment Partnership (PEP)

In the Asia and Pacific region two partner countries have been supported in a more substantial way. The first is Indonesia with a focus on fossil fuel subsidy reform; the second is Vietnam with a focus on environmental protection tax and comprehensive environmental fiscal reform. These two examples mirror the two before mentioned aspects of getting the prices right:

Indonesia

- In 2014, energy subsidies amounted to about 20% of the state budget
- On behalf of the German and Indonesian government, GIZ supported the Ministry of Finance in the process of reducing energy subsidies.
- Through a phase-out of fuel and electricity subsidies, energy subsidies were reduced to 7% of the budget.
- GIZ supported specifically impact assessments to balance environmental, economic and social effects and accompanied the process of policy design.

Vietnam

- The objective of the environmental protection tax in Vietnam was to decrease negative environmental externalities through the increase of the price for the use of some natural resources.
- GIZ supported simulations of possible Ecotax impacts via regression and Computable General Equilibrium (CGE) models on environmental, economic and social indicators and accompanied the process of policy design
- Ecotax came into force (2012)
- GIZ supported impact evaluation of Ecotax (2014/15)
- increase in tax rate (2015) the Income from Ecotax amounted to 2.61% of total tax revenue in 2015
- Currently there is an ongoing second impact evaluation (2017)

Interestingly during the evaluation process and the revision of the tax rates the third before mentioned argument gained increasingly importance: The environmental tax was considered as a good way to raise government income that was eroding because of the international integration process and the decrease in taxes levied on international trade. This again was as well our experience in Germany: In the beginning the environmental tax was introduced as income neutral, that is to say to set off decreases in other taxes. Later, when tax income increase seemed necessary, environmental tax was used for this purpose.

With the adoption of a comprehensive green growth strategy in Vietnam as well a comprehensive ecological fiscal reform has been designed with support from GIZ by the Ministry of Finance and approved under the name of “Green Growth Action Plan for the Financial Sector” with the main elements:

- Green public procurement
- Further revision of environmental tax
- Fees and charges for environmental protection
- Review and provision of recommendations on the revision and/or supplementation of import/export trade policies
- Green credit policies

This was a short overview of the GIZ approach and experience with environmental fiscal reform in the region,

Thank you Mr. Chairman