GIZ Support to Environmental Tax and Fiscal Reform

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General Approach on Environmental Fiscal Reform (EFR)

**Allocation efficiency in the economy**

- EFR involves the correction of market failures and the environmental costs from production ("address negative externalities")
- Governments often promote resource overuse and pollution even further with harmful subsidies

<table>
<thead>
<tr>
<th>External Costs</th>
<th>Environmental Taxes or similar</th>
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<tbody>
<tr>
<td>Environmentally Harmful Subsidies</td>
<td>Subsidy Reform (decrease)</td>
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**A source for government revenue**

- Government revenue can be raised through many different approaches.
- **Tax on natural resource use:** Can avoid resource over-exploitation as well as decrease in employment ➔ Sustainable growth: **Tax resource use instead of labor or capital!**
GIZ’s Approach on Environmental Fiscal Reform

• GIZ currently supports around 30 programmes in Africa, Asia and Latin America: $40 million Euros in area of Good Financial Governance
• GIZ participates in relevant international initiatives on green fiscal reform:
  - Green Fiscal Policy Network (GFPN)
  - Carbon Pricing Leadership Coalition
  - Poverty Environment Partnership (PEP)

Example 1: INDONESIA - Reducing energy subsidy

• In 2014, energy subsidies amounted to about 20% of state budget;
• On behalf of the German and Indonesian Governments GIZ supported the Ministry of Finance in the process of reducing energy subsidies;
• Through a phase-out of fuel and electricity subsidies, energy subsidies reduced to 7% of the budget;
• GIZ supports impact assessments to balance environmental, economic and social effects.
GIZ’s Approach on Environmental Fiscal Reform

Example 2: VIETNAM - Ecological fiscal reform in Vietnam

- **Objective**: decrease negative environmental externalities through price increase
- **Approach**: GIZ supported impact assessment of possible Ecotax through simulations via regression and Computable General Equilibrium (CGE) and accompanied the policy design process
- **2012**: Ecotax came into force
- **2014/15**: GIZ supported impact evaluation of Ecotax
- **2015**: Increase in tax rate - Income from Ecotax: 2.61% of total tax revenue
- **2016/17**: Ongoing second impact evaluation
GIZ’s Approach on Environmental Fiscal Reform

Example 2: VIETNAM - Comprehensive ecological fiscal reform

- GIZ supported Ministry of Finance in an overall concept for comprehensive ecological fiscal reform

Main Elements of Green Growth Action Plan

- 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 polices
- Green credit policies
THANK YOU FOR YOUR ATTENTION!