

OECD DAC WORKING PARTY ON DEVELOPMENT CO-OPERATION AND ENVIRONMENT

Scoping Workshop on “Reducing poverty through environmental fiscal reform (EFR)”

OECD, Paris, 30-31 January 2003

Summary of proceedings and draft work programme

The two day workshop included a wide range of different stakeholders plus country teams from China, India and South Africa. At the end of the workshop a work programme started to emerge, building on the extensive work already done in-country and by many international agencies. This note summarises recommendations for future work, immediate next steps, workshop proceedings and background.

1. Recommendations Regarding Future work

Objectives

The main objective of the proposed work by the DAC Working Party on Development Co-operation and Environment (WP-ENV) should be to **support environmental fiscal reform (EFR)**, to promote improved environmental management while ensuring poverty reduction and fiscal discipline.

Scope

The work programme should adopt a **clearly focused definition of environmental fiscal reform**, while covering expenditure, taxation and resource rent issues. This will cover the pricing of energy, pollution and natural resources. It will be essential to use commonly understood/accepted definitions for (environmental) taxes, levies and user charges, building on existing approaches (e.g. the IMF overview paper). Expenditure issues in terms of environmentally detrimental subsidies (eg to energy) will be included, but not environmentally supportive expenditure (unless this is itself financed by some form of environmental tax or charge).

Application of EFR in developing countries appear so far to be limited. In addition to technical issues, the most common reasons for this are **governance/political economy and institutional issues** and in some cases awareness and analytical capacity. The key governance/institutional issues include the complexities of fiscal decentralisation, short-term losers vs. long term winners, poor links between research and application, use of revenue (e.g. earmarking versus revenue neutrality), corruption, competitiveness concerns and pro-poor targeting. Another key issue is the potential trade-offs between the different objectives for EFR – in particular between improving environmental management through incentives and price signals versus revenue gains – but also other objectives such as poverty reduction, fiscal discipline and administrative simplicity. **Accordingly, such “political economy” issues, and the issue of how to build constituencies for reform**, will receive particular emphasis in the work programme.

Approaches

Some application and much research on EFR has already been undertaken by the IEA, IMF, OECD, UNEP, World Bank, other agencies and research institutions around the world. In some middle income countries, such as China, South Africa and India, EFR is starting/underway (with a focus on reform of expenditure and taxation that affect pollution), and much could be learnt from documenting and understanding these ongoing processes. There is also a need to understand the very different processes at work in lower income countries – where issues

relating to resource rent taxation (e.g. of minerals, forests, and fisheries) are key and how these can be integrated into Poverty reduction strategy processes.

Thus the approach will be to document and **build on existing knowledge/experience**, and improve **dissemination of experience** (and research) on environmental fiscal reform, particularly on how to build constituencies for reform. The emphasis would be to promote **exchanges of experience on what works and what does not**, firstly within and between countries (both South-South exchange and between OECD and non OECD countries) and also between fiscal, development and environmental / natural resource constituencies.

Audience / Partners:

The primary audience would be OECD **development Ministers**, but also **Ministries of Finance** in partner countries. Relevant sectoral Ministries, such as energy, water, forests, agriculture, fisheries and Ministries of environment are also important. Another central stakeholder is subnational government, who may see EFR as a way of generating additional revenue, but have often been less engaged in these debates than central government. Ministries of Finance will however remain the primary audience as they are key to implementation and have often been less engaged with debates over EFR.

Given the importance of engaging with the politics of the budget process, it is also important to **engage with parliamentarians** (for example through GLOBE, a group of environmentally conscious parliamentarians with chapters in many countries, such as South Africa).

Draft outputs

The work programme would have **multiple outputs for different audiences** – although with essentially the same messages. The table shows what these are, and the attached diagram shows the proposed time frame and linkages between the different outputs. (The second and third outputs would be subject to prior DAC approval or “tasking”.) For each output an appropriate dissemination strategy would be developed (eg to cover appropriate venue to launch draft and final version, publication in hard and electronic format etc) as improved dissemination is a key aspect of the work programme.

Possible outputs	Description
IMF occasional paper	Technical paper targeted at IMF staff and Ministry of Finance officials in partner countries
OECD/DAC reference paper	Paper for OECD DAC development Ministers covering the development context and links to poverty reduction and the governance/political issues of EFR (with some sectoral examples but focusing on generic recommendations)
Policy briefing	2-3 pages for OECD DAC development Ministers
Joint agency paper (along the lines of “Linking Poverty Reduction & Environmental management”)	Paper for partner countries and development agencies with recommendations on how to design and bring about environmental fiscal reform (focusing on governance/institutional issues, using some sectoral examples)
Case studies on middle income countries	China, India and South Africa experience (based on scoping workshop presentations) with other relevant papers and possibly with additional Latin American, South East Asian or Central/Eastern European examples
Case studies of low income countries	Low income countries focusing on resource rent taxation (e.g. of forests, and fisheries), related governance issues (e.g. corruption) and how these can be integrated into Poverty reduction strategy processes

Possible workshop Session under the OECD Global forum	This body linked with the OECD Committee on non-member OECD countries provides a forum for sharing experience between OECD and non-OECD countries – where EFR lessons could be discussed
Possible workshop with parliamentarians (eg GLOBE)	Links with this group of environmentally conscious parliamentarians would be a good way to engage with the budget process on EFR

2. Immediate Next Steps

- Scoping workshop minutes will be circulated to all participants and Members of the OECD DAC WP-ENV for information.
- The OECD will put the draft work programme, minutes, papers and presentations on the web: <http://www.oecd.org/dac/environment>
- During the final session, several agencies offered both financial and technical support for the work programme. DFID and BMZ/GTZ have indicated interest in committing funds and staff time (although for GTZ staff time would only be available in a few months). USAID also offered some staff time. Several other agencies said that following consultations with other colleagues, they will be in a position to make commitments. A draft budget will be available from Paul Steele on request.
- India, South Africa and China offered to revise their presentations within a month prior to their being put on the web site and to consider additional material which could also be published as part of subsequent case studies.
- Further case studies on lower income countries – where resource rent taxation (e.g. of forests, and fisheries) is key and how these can be integrated into Poverty reduction strategy processes would be considered. These would best be done by engaging with actual in-country stakeholders.
- OECD DAC Secretariat staff will pursue linkages to two ongoing OECD processes to achieve synergies and greater dissemination: Firstly, potential links to the OECD horizontal project on obstacles to policy reform for sustainable development, which focuses on environmental taxes and subsidies and has to report to the OECD in 2004. Secondly, it will be explored whether the “OECD global forum” on Sustainable Development (a high level discussion vehicle for OECD and non-OECD members), could be used as a vehicle for sharing experience on environmental fiscal reform.
- The IMF paper on environmental fiscal reform, intended to become an IMF Occasional Paper, and a summary of which was presented at the meeting, will be circulated to participants for comments.
- The World Bank will explore linkages with their ongoing work, in particular through the PROFOR forestry programme – which has a strong focus on governance issues.
- The South Asian Network for Development Economics and Environment (SANDEE) could consider ways to address environmental fiscal reform in their future work
- UNEP will also explore linkages with its ongoing work programme, especially with regard to its work on economic instruments and subsidy reform

3. Workshop Proceedings

The objective of the meeting sponsored by DFID and BMZ/GTZ was to agree a draft work programme (initially over one year) on environmental fiscal reform for OECD DAC members and their partners.

Over 30 participants attended the two day workshop including those from partner countries (China, India & South Africa), different OECD Secretariats (development, environment, fiscal affairs and trade), representatives of bilateral agencies (AUSAID, DANIDA, DFID, GTZ, SIDA and USAID), international agencies (IEA, IMF, UNEP, UNDP, World Bank) and research organisations (IIED, IISD).

The opening session on Thursday was chaired by Stephan Paulus of GTZ and opened by Paul Isenman of the OECD, who welcomed participants and drew attention to the mandate given by the OECD DAC Working Party on Environment and Development during its November 2002 meeting. Paul Steele of DFID presented the objectives of the workshop and background, stressing the need to agree a work programme (initially over one year). Muthukumar Mani of the IMF gave an overview of environmental fiscal reform and its links to general taxation and expenditure reforms based on a longer draft IMF Occasional paper. The Chinese delegation of Prof. Ma Zhong (University of China), Cong Cao (National Taxation Administration) and Yaoxian Wang (State Environmental Protection Agency) highlighted the massive growth of the Chinese economy and the way environmental fiscal reform, especially the pollution license fee was generating funds to address some of the environmental consequences of this growth.

The afternoon session was chaired by Leslie Johnson of USAID. The Indian delegation of Subhash Garg (Ministry of Finance), K.K. Narang (Ministry of Environment and Forests) and Divya Datt (Tata Energy Research Institute) presented a broad review of environmental fiscal reform in the Indian context, suggesting a broad framework for EFR and next steps especially highlighting the need to do a Status Paper on EFR for India before taking up advocacy, design and mainstreaming of EFR. The South African delegation of Cecil Morden (National Treasury) and James Bignaut (University of Pretoria) highlighted ongoing work within the Treasury on environmental tax reforms, particular on vehicles and electricity. Kristi Varangu of the International Energy Agency presented on work just being completed on energy subsidy reform by the IEA and UNEP, and how this could be built upon in the OECD DAC WP-ENV programme. Anja von Moltke of UNEP also highlighted ways for the OECD DAC WP-ENV to build on the IEA/UNEP energy work, as well as UNEP's case studies and analytical work on economic instruments for environmental protection. David Cassells of the World Bank presented on work on environmental fiscal reform in the forestry sector.

The subsequent day was spent agreeing the work programme with two break-out sessions on technical/analytical issues and political economy issues. The technical/analytical group focused on the need to develop a clear conceptual framework with agreed definitions. There was support for reviews of existing practice and application in developing countries around the energy, forests and water sectors and agreement that any such reviews should be prepared by stakeholders in country. The political economy group stressed the need to address the "winners" and "losers" of reforms – both in the short and long term, and how different groups, such as the non-poor and the poor (and subcategories within these) would be affected.

4. Background

This scoping workshop was the start of an initial one year work programme under the auspices of the OECD's Development Assistance Committee (DAC) Working Party on Development Co-operation and Environment (WP-ENV). The DAC is a forum for development agencies to improve their effectiveness to support poverty reduction and sustainable development in partner countries. In November 2002 the WP-ENV approved a proposal to work on environmental fiscal reform, and commended the intention to involve finance ministers from the outset. The Working Party will be meeting again on 2-3 October 2003, which will provide a valuable opportunity to report on progress.