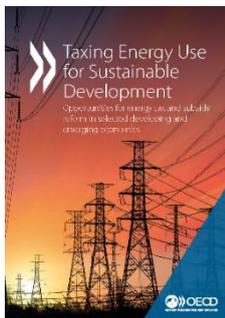


Summary note

Economic recovery programmes provide opportunities for countries to focus on strategies for pursuing sustainable development, while taking the necessary steps to mobilise domestic resources. Sustainable development requires an alignment between development strategies and climate change objectives. Carbon pricing and fossil fuel subsidy reform can be powerful tools to encourage low-carbon development choices and contribute to domestic resource mobilisation. Apart from reducing greenhouse gas emissions, carbon pricing can reduce local air pollution, reduce informality, and facilitate aligning development cooperation and climate action.



[*Taxing Energy Use for Sustainable Development: Opportunities for energy tax and subsidy reform in selected developing and emerging economies presents results for 15 developing and emerging market economies.*](#) The results in *Taxing Energy Use for Sustainable Development* (TEU-SD) include [data and indicators](#) to support carbon pricing reforms in the 15 TEU-SD countries, and compares their macro-economic and policy context to OECD countries. The results aim to inform policy makers so that they can translate high-level policy ambitions, such as those under the Paris Agreement and the Sustainable Development Goals (SDGs), into concrete action at the national level.

The [report](#) focuses on developing and emerging economies that have shown an initial interest in energy tax and fossil fuel subsidy reform, which has been demonstrated by their participation in initiatives such as the Coalition of Finance Ministers for Climate Action. The countries span geographies: North and Sub-Saharan Africa, Latin America and the Caribbean, and Asia, with the following countries included in the project:

- **Africa:** Cote d'Ivoire, Egypt, Ghana, Kenya, Morocco, Nigeria, Uganda;
- **Latin America and the Caribbean:** Costa Rica, Dominican Republic, Ecuador, Guatemala, Jamaica, Uruguay;
- **Asia:** Philippines, Sri Lanka.

Starting points differ across countries

The COVID-19 crisis has led to a substantial reduction in economic output and energy use, but economies are expected to recover to pre-crisis levels in the coming years.

Before COVID-19, TEU-SD countries were growing strongly, with most outperforming OECD countries. Energy needs increased in parallel, albeit at markedly lower rates, and so did energy-related CO₂ emissions, which is a positive sign from a climate and resource efficiency perspective.

Current levels of domestic resource mobilisation and access to energy vary significantly between the TEU-SD and OECD countries. While the average tax-to-GDP ratio across the OECD is [34%](#), domestic resource mobilisation remains a pressing issue in many TEU-SD countries, where the average tax-to-GDP ratio is only 19%.



While TEU-SD countries need to increase access to energy across their populations, OECD countries generally only need to maintain universal access. These differences will inevitably have an impact on the policy options and appropriate responses needed in TEU-SD countries compared to their OECD counterparts.

Carbon prices are currently low

None of the TEU-SD countries have explicit carbon pricing policies in place. Yet, almost all TEU-SD countries collect energy taxes - such as excise taxes on fuels - which raise government revenues and affect incentives for energy use, frequently in environmentally friendly ways. Pricing carbon will involve fewer social, economic and environmental trade-offs if it is accompanied by measures that ensure affordable access to cleaner alternatives.

What is the net effect of energy taxes and subsidies on public finances?

Several countries grant subsidies on certain forms of energy use. These put a burden on public finances and change incentives for energy use, often in environmentally harmful ways. In most TEU-SD countries, tax revenues exceed the cost of subsidies, meaning the net effect of energy tax and subsidy policies is positive for public finances.

On average, the overall contribution to public finances and domestic resource mobilisation corresponds to roughly 0.5% of GDP in TEU-SD countries. Taxes on energy use make a relatively larger contribution to public finances in OECD countries. On average across the OECD, net energy tax revenues are in the order of 1.6% of GDP.

TEU-SD countries generally have experience with fuel excise taxes, and this makes carbon tax reform relatively straightforward from an administrative perspective. As in OECD countries, the most polluting fuels, especially coal, are often amongst the lowest taxed.

Fossil fuels used for heating, cooking and lighting are often taxed at lower rates or subsidised. Raising rates on these fuels requires particular caution because of an elevated risk of unintended side effects of the higher rates, e.g. charcoal-switching that could worsen health, environmental, and fiscal outcomes. In addition, affordability is a prime concern.

What is at stake for domestic resource mobilisation?

TEU-SD countries would be able to raise revenue equivalent to approximately 1% of GDP on average if they implemented carbon prices on fossil fuels at the low-end benchmark rate of EUR 30 per tonne of CO₂. However, the revenue potential differs substantially across countries, reflecting differences in pre-existing tax levels and energy use patterns.

Opportunities to leapfrog coal altogether

In some countries, carbon price reform, on its own or in combination with other environmental instruments, such as a ban on coal use, could mean that these countries could leapfrog the most polluting fossil fuels altogether, as several TEU-SD countries are not currently using coal. In this case, the revenue potential of carbon pricing would be more limited, but it would save taxpayers money in the long run as countries avoid stranded assets and stranded jobs once high-carbon assets lose value as the energy transition accelerates.