

# **8<sup>th</sup> Global Conference on Environmental Taxation- Munich, 19-21 October 2007**

## **Reflections and Comments for Final Panel Session on Summing-up**

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### ***Introduction***

My comments will focus especially on the sessions of the Conference that were devoted to Environmental Fiscal Reform (EFR) in developing emerging and transition economies. I would like to thank the BMZ and GTZ for organising these sessions, which OECD has been pleased to support together with UNDP, Swedish SIDA and the UK's DFID. The sessions were enriched by concrete country experiences from South Africa, Argentina, Uganda, Tanzania, Kenya, China, Pakistan, Morocco and India. And these experiences have under-scored that governance, environment and tax are complex and cross-cutting issues by themselves and even more so when combined. They are also highly sensitive to country-specific circumstances, and EFR outcomes can be counter-intuitive. My strong recommendation to this closing session is thus to keep the developing country component as a regular, integral feature of the Conference. It has proven a rich and fruitful addition to the issues and debates. My further conclusions are grouped along five sets of issues: definitions and objectives, analysis and political economy, governance and accountability, the Paris Declaration and donor behavior, and issues not tackled in the Conference.

### **1. *Definitions and objectives***

The presentations revealed that it is difficult to conceptualise and capture the governance aspects of EFR. The experience of middle income countries with economic instruments may not be widespread. Many officials in government administrations may not know what they consist of – more than taxes, but also subsidies, pricing policies, and cost recovery measures. In terms of EFR objectives, for many developing countries, revenue mobilization through EFR may be more important than the creation of incentives that developed countries usually focus upon.

### **2. *Analysis and political economy considerations***

Part of the context is to recall that environmental objectives are a critical feature of achieving the Millennium Development Goals. In order to assess who are the winners and losers from EFR and measure its effects, we need a new set of performance and monitoring indicators, including soft indicators, not just amounts of revenue collected. Quantification of environmental contributions is essential. EFR is not just about revenues

– EFR is about behavioural change and movement towards more sustainable use of natural resources through financial incentives. Designing and undertaking EFR requires intimate sectoral knowledge, for example, how to increase forestry's contribution to poverty reduction, economic growth, and climate change mitigation. Evidence-based and political economy analyses are necessary. Evidence shows, for example, that when the rights of indigenous and other local communities are respected and their enterprises allowed to compete, they are addressing poverty and protecting forests they depend on for a living (e.g. evidence shows that, overall, forest communities take better care of the forests than any other manager, public or private, and do so while boosting the income of local residents).

### **3. Governance and accountability**

State legitimacy is at the heart of EFR-related governance issues. Good legislation and effective institutions are key EFR conditions. But tax policies are easier to address – often with the help of donors – than tax administration and implementation. Fiscal decentralisation seems to be crucial for EFR measures in developing countries, as shown in the case of Pakistan. Whole-of-government approaches, also known as 'policy coherence', are essential to the success of EFR – single ministry efforts are insufficient. EFR is deeply political. Taxes are a key feature of the "fiscal social contract", whereby states that tax their citizens are usually forced to negotiate with them and tend to be capable, accountable and responsible as compared with states that live from "unearned" revenues or rents, such as natural resource revenues and in some cases high levels of aid.

### **4. The Paris Declaration and donor behavior**

The ultimate purpose of aid is to abolish itself. Hence, EFR and tax reforms more generally, should be a key feature of responsible aid. Strengthening domestic revenue flows and tax administration, rather than aid dependency, is called for. PRSPs can be a useful instrument to push EFR higher on the agenda and to align donors and local decision-makers behind it in accordance with the Principles of the Paris Declaration on Aid Effectiveness. Donors can tackle the challenges of the political economy measure of EFR through capacity development, which can take on a number of forms (e.g. stakeholder processes, strengthening tax administrations and expanding their focus from expenditures to public revenues, supporting inter-ministerial co-operation, financing studies and expert exchanges to support local ownership).

### **5. Issues not tackled in the Conference (that might have been)**

This Conference has tackled a rich and complete set of issues. Two areas that could have added a dimension would have been attention to the element of time – the time line for reform in developing countries in relation to the horizon for donor engagement are critical issues. Donors tend to come in for short-term periods, whereas environmental

fiscal reform, like many other reforms, takes a long time. The second missing element was engagement with the private sector, which could further enlighten the debate in future Conferences and workshops.

Thank you for your kind attention!!