

Fiscal Policy for Sustainable Development



SDPI
Sustainable Development Policy Institute

Outline

- Elements of fiscal policy for Sustainable Development
- Environmental taxes and energy subsidies
- Searching for green economy sectors

Sustainable development goes beyond economic development !



Fiscal Policy & Inclusive Growth

- Job creation and labour mobility
- Rise of all sectors (SMEs vs. large scale)
- Rise of all segments of population (informal vs. formal)
- Growth is sustained for reduction in poverty

Fiscal Policy & Social Justice

- Social justice
 - Distribution of wealth
 - Equity in opportunities
- Vertical inequality
 - May be addressed through fiscal policy
- Horizontal inequality
 - Requires fiscal policy and supplementary action in legislation

Fiscal Policy & Natural Resource

- Inter-generational equity
- Pricing natural resources efficiently
- Supporting climate change adaptation and mitigation

Fiscal Policy & Natural Resource - 2

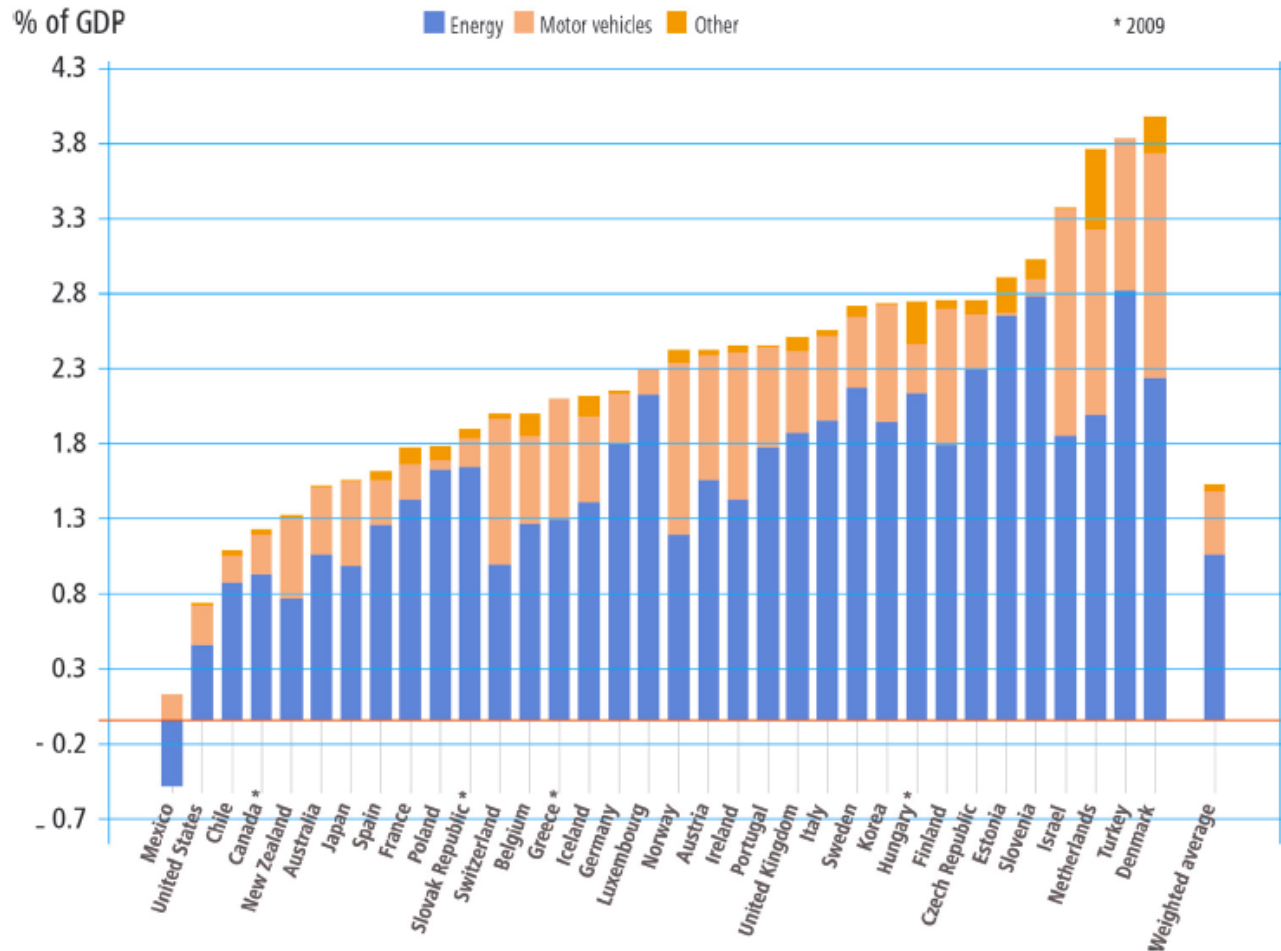
- Fiscal policy provides a critical set of instruments for building green economies by **pricing environmental externalities** and redressing social impact. In particular, it can support the **shift of investments towards clean and efficient technologies, natural capital and social infrastructure** such as education, skills training, health care and social protection systems.
- Environmental taxes have proven to be the most effective tool in addressing not only environmental externalities but also inducing green investment.
- Environmental tax reforms in several countries have been supported by broader fiscal reforms (i.e. tax shift) aimed at reducing overall tax burdens, increasing employment and addressing social concerns.

Fiscal Policy & Natural Resource - 2

- Many countries employ tax breaks, or tax reliefs, to support renewable energies. Yet, such support needs to be well-targeted and closely monitored. In some cases, it is difficult to assess their overall impact. In general, taxing “bad behaviour” is preferable to subsidizing “good behaviour” but in some cases, both might be useful.
- When designing fiscal reforms, it is critical to consider its potential negative distributional impact on vulnerable groups (e.g., low-income households, pensioners, single-parent households). However, these impacts could also be mitigated through tax exemptions, reduced tax rates or direct compensation measures.

Composition of Environmental Taxes

Figure 1. Environmental tax revenues (% of GDP of OECD countries, 2010)⁴



Role of environmental taxes in green economy

- Increase in crude prices positively impacts investment in renewable energy
- Carbon pricing important for green investment
- Feed-in tariff has implications for green investment
- Carbon taxes can shift power generation sources away from coal
- Barbados and Germany's ecotaxes entirely spent on low income households
 - Germany created 250,000 green jobs between 2003-2005, increased GDP by 0.5%, decrease in Co2 emissions and a behavioural change in consumption pattern

Reforming energy subsidies

- Iran's energy subsidy reform
 - Increased the price of fossil fuel sources by 95% for the rich
 - Compensatory cash payments to the poor
- Untargeted subsidies promote inefficient energy use
- Cross subsidies have limited distributional effects
- Is it politically feasible?
 - Indonesia used savings from energy subsidies removal for marginalized population
 - Gradual phasing out and increase in price

Ocean-based Blue Economy

A search for new economic sectors

SAARC Kathmandu Declaration

The Heads of States recognized the manifold contributions of ocean-based blue economy in the SAARC Region and the need for collaboration and partnership in this area

Economic Gains Derived from Oceans

- Seafood contributing 16 percent of the animal protein consumed by the world's population with demand expected to double by 2025
- Over 300 million livelihoods from fishing, aquaculture and tourism among others; Sea floors yield important minerals. Technology is beginning to tap new sources of energy from ocean
- Revenues in the global economy of more than US\$190 billion annually from seafood, and US\$161 billion annually from marine and coastal tourism
- Oceans contributing medicines that are responsible for billions in revenues to pharmaceutical and biotechnology sectors
- A number of essential goods and services such as protection from natural hazards for the growing coastal population and storage of carbon

Threats to Blue Planet

- Increasing pollution and unsustainable coastal development contribute to the loss of biodiversity, ecological function and the decline in provision of environmental services
- Rising atmospheric CO₂ levels are undermining fundamental aspects of many marine ecosystems through ocean acidification; changing ocean chemistry at a speed faster than at any time in the last 300 million years

Moving Towards a Blue Economy

- Inline with Rio+20 Green Economy initiative
- Blue Economy: Improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities (UNEP 2013)
 - low carbon,
 - resource efficiency
 - and social inclusion

National Planning Systems - SAARC

- Bangladesh → blue economy and production systems
 - The **Maritime Strategy of Bangladesh**
- India → planning for countries around Indian ocean
 - Indian Ocean Rim Association
 - Centre for International Maritime Security has formulated **Blue Economy: An Agenda for the Indian Government**
- Rest of South Asia → weak efforts
 - Pakistan needs an integrated National Maritime Policy

Opportunities-1: Shipping & Port Facilities

- 80% of global trade by volume, and over 70% by value is carried by sea
- Despite the after shocks of global financial crisis world seaborne trade grew by 4%
- The container traffic is projected to triple by 2030
- Expanding blue employment opportunities
- Emissions from shipping and ports activity not being addressed
- No hindrance from law and order [transit for Afghanistan and CIS]

Opportunities-2: Fisheries

- 350 million jobs linked to marine fisheries
- 90% of fishers living in developing countries
- USD 25 billion fish traded by developing countries
- Global catch stagnated in 2000
- Overall catch risks decline with 75% stocks depleted
- Human activity has reduced ocean productivity

Opportunities-3: Travel and Tourism Industry

- Tourism is 9% of global GDP [6% of world exports]
- Steady growth of 3-4% every year until 2030
- Aging population, stable incomes and low transport costs will make coastal and oceans locations attractive
- Ecosystem services need to be properly valued
- Planning process must regard ecotourism and nature based tourism

Opportunities-4: Aquaculture

- Fastest growing global food sector
- 47% of the fish provided for human consumption
- 50% of fishmeal and 60% of oil in salmonid can be replaced with vegetable substitutes
- Sector not being recognized in national planning

Opportunities-5: Energy (Offshore)

- Offshore fields provide 32% of crude oil
- Projected to rise to 34% in 2025
- Larger focus on deep water oil drilling
- Less emphasis on renewable energy – wind, wave, tidal, biomass, thermal conversion and salinity gradients
- Global installed capacity of wind energy projected to quadruple by 2014

Opportunities-6: Biotechnology

- USD 2.8 billion global marine biotechnology products
- Projected to grow to USD 4.6 billion by 2020
- Marine bacteria is a rich source of potential drugs
- Over 40 marine derived drugs in clinical development including 15 for the treatment of cancer
- Algal biofuels offer promising prospects in energy sector

Opportunities-7: Submarine Mining

- Rising commodity prices now driving exploration and exploitation of mineral deposits beneath sea floor
- These minerals already being used in ICT hardware and renewable energy technologies
- Commercial interest is strong in polymetallic nodules and in seafloor massive sulphides
- International Seabed Authority has developed mining codes and commenced issuing licenses

Environment Performance in the Neighborhood -2014

Country	Rank ***	EPI Score*	Air Quality	Forests	Marine Protected Areas	Terrestrial Protected Areas*	Carbon Intensity Trend	Trend in CO2 Emissions per kWh	Wastewater treatment
Afghanistan	174	21.6	62.3	52.4					0.0
China	43	43.0	18.8	25.3	67.8	80.4	39.3	51.8	18.2
India	155	31.2	23.2	35.1	60.8	36.3	51.5	51.9	10.5
Iran	83	51.1	88.8	84.1	73.5	34.4	28.8	46.2	2.8
Pakistan	148	34.6	23.0	43.1	56.2	51.1	38.8	45.9	3.5
Tajikistan	154	31.3	69.2			33.9			2.3

Source: 2014 Environmental Performance Index, Yale Center for Environmental Law and Policy

*Global Biome Weights. **A higher score implies better performance. All indicators on the left represent 'score'. ***The rank is out of 178 countries.

Lessons from Statistics

- Comprehensive data on climate change, environment and marine-related indicators not available
- China and India's production hurting via coal-intensity
- Lack of integrated environmental management in South Asia

State Capacity to Capitalize on Blue Economy

- Vision and capacity to develop state-level institutions that could design and implement policies for blue economy
- This is closely related to the energy, food and water security in the country
- The national Ministry of Climate Change has overlapping roles with Planning Commission and National Disaster Management Authority apart from provincial environmental protection agencies
- Enhanced role for National Institute of Oceanography under Ministry of Science and Technology

Weak Demand for Ocean-based Reforms

- Only a few civil society organizations are involved in the capacity building of communities vulnerable to changes in sea patterns
- These efforts need to be scaled up given the rising fossil fuel consumption, depletion of forests, and changes in land use
- The development plans and provincial industrial policies (if any) are also not in compliance with the national climate change policy

An Agenda for South Asia's Blue Economy

- Build South Asia-wide data and information related capacities
- Capacities and institutions assessment of state-agencies mandated for ocean protection
- Involvement of private sector in enhancing ocean productivity
- Outreach programmes for enhanced understanding of all stakeholders regarding blue economy
- Role of development partners to strengthen civil society and private sector in demanding blue economy reforms
- Opportunity for Pakistan in next SAARC Summit

Thank You

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