

“Who pays the price?”

Transforming public finance for climate and nature

Levers for Transforma(c)tion, Session 1 - FuFo 2023

Agenda

1. Introduction: Green Public Finances and Pricing Instruments in German Development Cooperation
2. Break-out Sessions
 - Carbon Pricing Impact Calculator
 - Water tariffs in Costa Rica
3. Plenary Discussion
4. Closing

Introduction:

Green Public Finances and Pricing Instruments in German Development Cooperation

Why does GIZ work on green public finances?



- Climate change, ecosystem degradation and environmental pollution are increasingly threatening people's livelihoods in all GIZ partner countries.
- Global momentum to act on climate change is growing, especially emerging economies have set ambitious climate and environmental targets → financing gap
- Several developing and emerging countries are facing tight fiscal space (exacerbated by Covid pandemic, energy crisis and inflationary pressure). Sovereign debt levels have increased.
- Public finances and incentives are often not aligned with climate and environmental objectives.



Case for green public finances:

It is seen as normal that non-sustainable economic activities are cheaper than sustainable ones...

Electricity from fossil fuels



vs.



Electricity from renewable energies



Air travel



vs.



Train travel



Conventional agriculture



vs.



Sustainable agriculture

... but this is the result of market failure!



- (1) The value of an intact environment is not reflected in economic and policy decisions.

→ Environmental damages are not reflected in prices

→ **Negative externalities**

- (2) Often, current policies and subsidies favour harmful status quo economic practices

→ Economic and policy frameworks foster environmental destruction

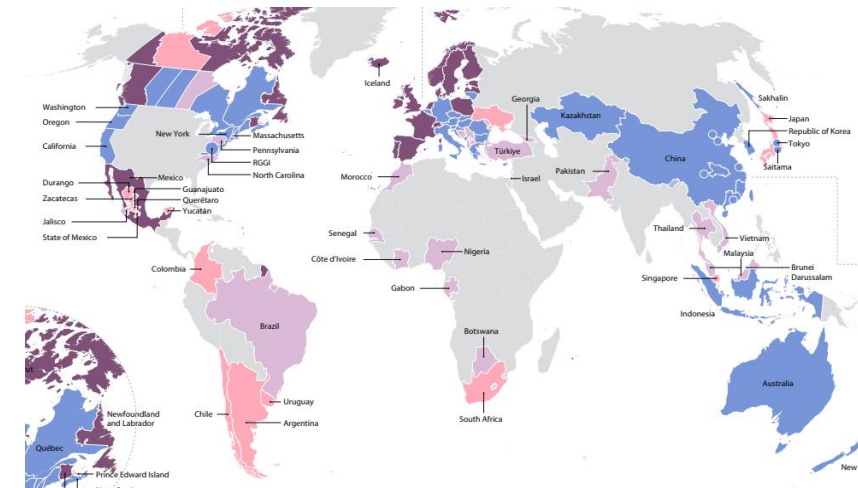
The Solution through triple-win

Greening public finance: Reforms of taxes, fees, subsidies

Economic dimension	Environmental dimension	Social dimension
<ul style="list-style-type: none">• Mobilizes urgently needed domestic resources, increase fiscal space• Can create incentives for ecological modernization and innovation for industries of the future	<ul style="list-style-type: none">• Incentives for environmentally sustainable behaviour• Mobilizing resources for environmental protection	<ul style="list-style-type: none">• Socially just design (Just transition) essential• Various social benefits, i.e job creation, health, food security

Example: Carbon pricing to internalize pollution costs (I)

- A carbon price is a surcharge (tax) on goods and services in equivalence to carbon emissions associated to their production, distribution and use:
 - Carbon tax: Upstream tax on fossil fuels (gasoline, diesel, natural gas, coal) according to their specific carbon content.
 - Emissions trading system: Issuing limited number of permits to emit carbon emissions. Emitters may trade permits which results in a carbon price.
- Carbon pricing is a cost-effective instrument.
 - Providing an economic incentive to reduce high-carbon fuels and technologies.
 - Providing an economic incentive to invest in cleaner technologies by adjusting relative prices.
 - Establishing the “polluter-pays-principle”.
 - Raising revenues, which can be used for compensation.



In 2023, instruments for carbon pricing cover only 23% of emissions globally (WB 2023).

Example: Carbon pricing to internalize pollution costs (II)

The Challenges...

- In short-term carbon pricing increases costs of goods and services to consumers
- Carbon pricing can be regressive and impact low-income households more than high-income households, even if the former use less energy
- Policy makers are hesitant to introduce additional taxes/pricing instruments
- Opposition by different actors: civil society, private sector, policy makers

The approach...

- Introducing a socially just carbon price requires comprehensive data collection and analysis, information dissemination, knowledge exchange and communication

Our solution...

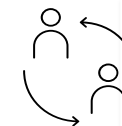
EM “Supporting socially responsible carbon pricing”



Output 1:
Digital Interactive Tool
(Carbon Pricing Incidence Calculator)



Output 2:
Policy Recommendations on design of a socially accepted CO₂-price in two pilot countries



Output 3:
Dissemination of Tool and experiences from pilot countries within international networks

Other Green Public Finance Instruments

Green revenue policy

- introduction of green taxation and levies (carbon pricing, waste management fees,...) and incentives for promoting a green economy
- identification and reduction of harmful tax expenditure



Green budgeting (planning, execution and evaluation)

- integration of national climate and environmental strategies into medium-term expenditure frameworks and annual budgeting
- strengthening transparency, monitoring and evaluation of public expenditure on green policy objectives
- green public procurement

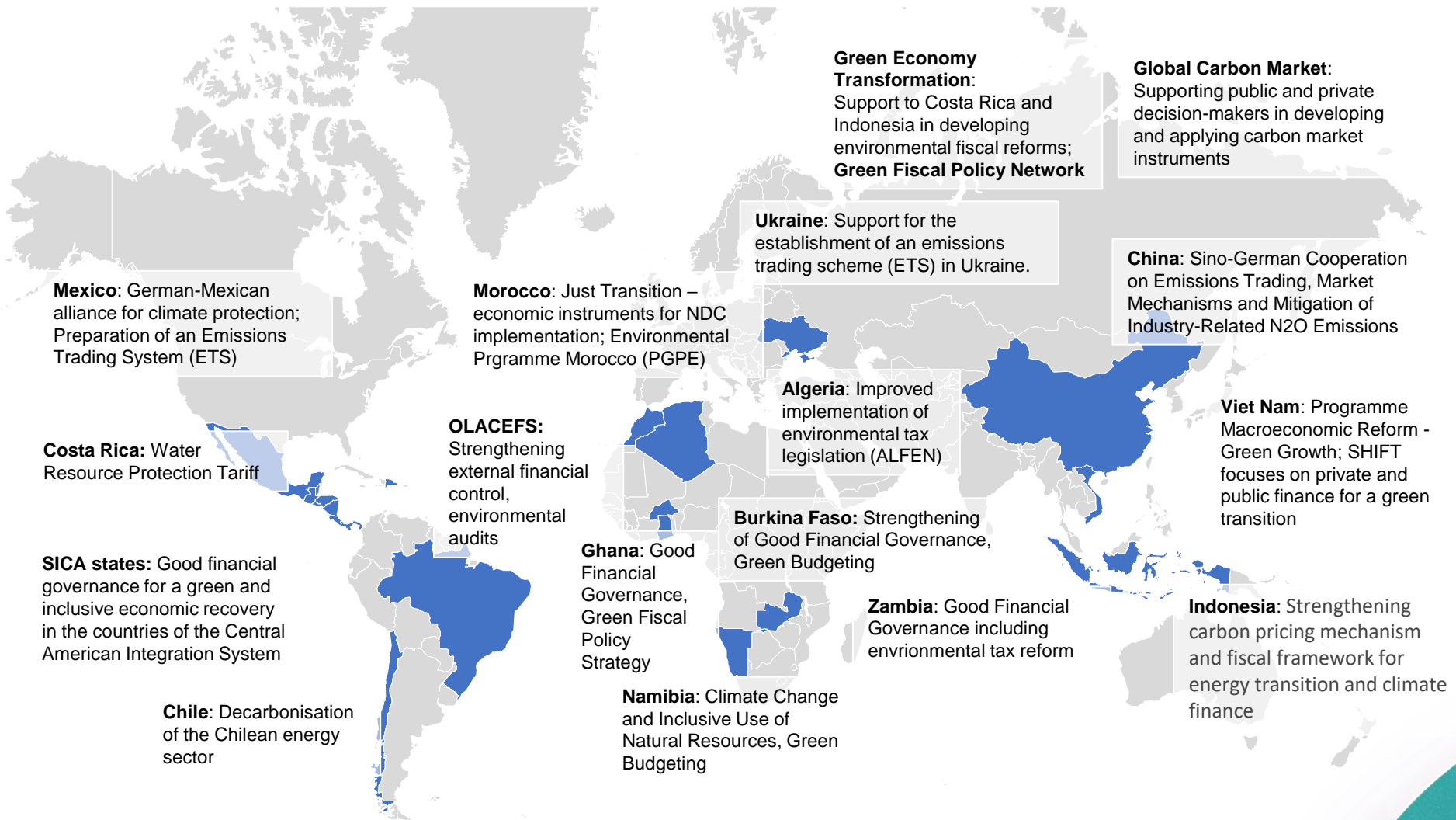


Consideration of transitional and physical risks in fiscal planning

- Identification and assessment of environmental and climate-related risks on public finances and fiscal stability
- Integration of risks into medium/long-term expenditure planning, development of risk management systems, etc.



GIZ Engagement on Green Public Finance



Break-out Session 1: The Carbon Pricing Incidence Calculator (CPIC)

Carbon Pricing Impact Calculator **CPIC** Methodology About this tool

Leaving No One Behind: facilitating socially just carbon pricing policies

Choose your country ▾

Start analysis

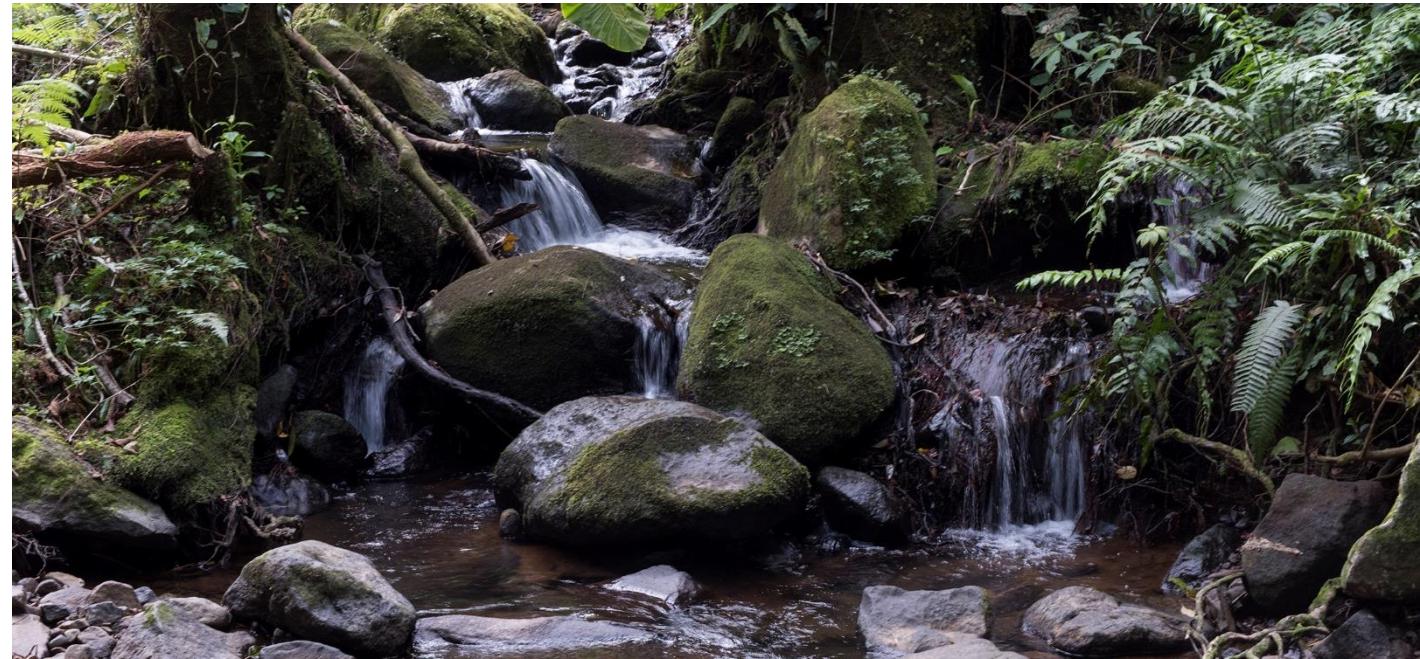
The CPIC allows you to explore the distributional consequences of carbon pricing and potential compensation mechanisms across households in your country in an accessible manner. The tool is designed for policy makers and civil society to provide insights for policy dialogue, design and implementation and can help to address socially unbalanced outcomes as part of the planning process.

The screenshot displays the CPIC tool's configuration interface, organized into three main sections:

- Population groups:** A grid of 14 options to choose up to two features. The options include: Five income groups, Ten income groups, Household size, Urban or rural area, Gender of household head, Industry of household head, Education of household head, Car ownership, Province (sub-national division), District (local area), Ethnicity (self-identified), Language, Main cooking fuel, and Electricity access.
- Policy instruments:** A slider set to 40\$/tonne with a 'relative' button. Below are four options: Global carbon price, National carbon price, National carbon price in the electricity sector, and National carbon price in the transport sector.
- Compensation measures:** A slider set to 100% back to population. Below are six options: Equal per capita transfer (lump sum), Equal per household transfer (lump sum), Electricity price subsidy, Exempting electricity from carbon pricing, and Reducing consumption taxes (e.g. VAT).

Break-out Session 2: Innovative resource mobilisation for water, biodiversity and climate adaptation: The Costa Rican Water Protection Tariff

- *Planning for climate-resilient water sector*
- *Resource mobilization for water security and eco-system-based adaptation*



**Deutsche Gesellschaft für
Internationale Zusammenarbeit (GIZ) GmbH**

Registered offices
Bonn and eschborn, Germany

Friedrich-Ebert-Allee 32+36
53113 Bonn, Germany
T +49 228 44 60 – 0
F +49 228 44 60 – 17 66

Dag-Hammarskjöld-Weg 1-5
65760 Eschborn, Germany
T +49 61 96 79 – 0
F +49 61 96 79 – 11 15

E info@giz.de
I www.giz.de