Domestic public resources and the SDGs

Finance is a critical element for delivering the Sustainable Development Goals (SDGs) and is recognised as a key means of implementation of the 2030 Agenda (SDG17). Preliminary estimates of investment needed for the SDGs range from incremental investments of some USD 2.4 trillion per year (SDSN, 2015) to total investments between USD 5 trillion and USD 7 trillion per year (UNCTAD, 2014). This will require the mobilisation and effective use of all available sources of financing - public, private, domestic and international.

Among the finance options available, strengthening domestic resource mobilization (SDG Target 17.1) will be particularly important. Domestic public resources account for the largest source of development financing for developing countries, and have increased rapidly over the past two decades outpacing flows of international development aid (Figure 1). Further mobilization of domestic public resources and their strategic use through fiscal policy can create fiscal space for sustainable budget expenditures, improve the effectiveness of public spending, reduce aid dependency, raise countries creditworthiness and support good governance (World Bank, 2013). Stable domestic sources of finance can also help to leverage inclusive, sustainable private investment and can be complemented by international development aid where appropriate1 (European Report on Development, 2015).

Mobilization and effective use of domestic public resources is one of the core actions agreed at the Third International Conference on Financing for Development held in Addis Ababa in 2015. Governments committed to among others: enhance revenue administration, improve efficiency and effectiveness of tax systems; reduce illicit financial flows and

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1 Especially in the poorest and most vulnerable countries which have limited domestic resources and struggle to attract private investors.

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Figure 1: Trends in development finance for developing countries (USD bn, 2011 prices)

Source: European Report on Development, 2015
UNEP defines a **green economy** as one that results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.

The role of fiscal policies

Fiscal policies provide a critical set of instruments for building an inclusive, green economy and supporting delivery of the SDGs. Fiscal policies generate domestic public resources and encourage more effective public spending, create fiscal space for priority investments and support broader fiscal reform. By pricing environmental externalities, green fiscal policies can also leverage additional resources, including from the private sector, and shift consumption towards environmentally friendly, socially inclusive activities.

Fiscal reforms, such as efforts to strengthen tax administration, reduce tax evasion, harness natural resource revenue or reform subsidies, can mobilise significant domestic public resources. For example, estimates of government spending on fossil fuel subsidies range from USD 500 billion to over USD 5 trillion when air pollution, traffic congestion and accidents are taken into account. These subsidies exacerbate fiscal deficits, encourage excessive energy consumption, crowd-out investment in clean energy, and contribute to local pollution and congestion. They also divert resources from pro-poor spending and are often regressive as benefits mainly flow to rich firms and consumers. Reforming such subsidies would raise government revenue by USD 2.9 trillion, while reducing global CO₂ emissions by more than 20 per cent and premature air pollution related deaths by 55 per cent (IMF, 2015).

Resources mobilised through fiscal reforms can be used in different ways to support multiple SDGs. Resources can be allocated to the general budget to support priorities such as fiscal consolidation or socially desirable projects including investments in clean technologies, natural capital and social infrastructure. For example, fiscal reforms and pricing policies in the water sector (e.g. to reform inefficient water subsidies)2 can mobilize domestic resources for investment in water infrastructure, helping to expand coverage, improve water quality, increase access and services to poor communities (SDG6). In Burkina Faso, a progressive tariff grid for drinking water based on the volume of water use has helped to improve efficiency and reduce per capita use, while increased government investment in water collection and storage infrastructure.

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2 Water subsidies are estimated to amount to about USD 456 billion globally in 2012 (IMF, 2015a).
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Revenues from fiscal reforms can be partially earmarked to specific purposes, for example to improve energy efficiency and access to energy services (SDG7) or to mobilize other sources of financing (SDG17), and can be useful in certain circumstances (IMF, 2012). For example in Mexico an earmarked share of water use fees goes towards the hydrological environmental services (PSAH) programme which aims to support watershed protection and aquifer recharge in forest areas which contribute to water supply (CBD, 2011).

Fossil fuel subsidy reform in Indonesia

In Indonesia, efforts to gradually liberalize the fuel market and eliminate fuel subsidies in 2005 were supported by a public information campaign and an extensive programme of cash and in-kind transfers. These compensation measures made use of existing social protection programmes which facilitated timely delivery of the measures and helped reduce opposition to the reform. Following the reintroduction of subsidies in 2009 in the lead up to national elections, the reform was put back on track in 2013 accompanied by a package of compensatory measures which amounted to USD 2.9 billion and included a temporary unconditional cash transfer scheme and provision of support through existing social welfare programmes. By early 2015, the government eliminated gasoline subsidies and further reduced the diesel subsidy, taking advantage of low global oil prices. These reforms have created considerable additional fiscal space for social spending programmes and infrastructure investments including port and rail connections and renewable energy (European Report on Development 2015; IMF, 2013; GSI, 2014).

The outcomes of such a tax shift are known as a "double dividend" due to potential positive effects on employment and the environment.

Revenues can be used to reduce growth-distorting taxes on labour or capital accumulation which should increase incentives for employment3 (SDG8). For example, according to one study, environmental tax reform can contribute to a growth in employment by up to 0.5 per cent in Denmark and Sweden, and by around 0.2 per cent in Germany (Anderson and Ekins, 2009). Revenues can be recycled to mitigate adverse impacts on vulnerable groups such as low-income households. Targeted support mechanisms, such as tax exemptions, cash transfers or social safety nets, will not only increase social and political acceptability of fiscal reforms, but can also help reduce inequality and support social protection (SDG10).

By revising prices (through the internalisation of externalities), green fiscal policies can help shift producer and consumer behaviour towards environmentally friendly activities. For example, vehicle registration taxes designed to promote low-carbon vehicles, such as in Ireland, the Netherlands, Norway and Spain, can increase the market share of fuel efficient cars (Green Fiscal Commission, 2010), helping to reduce local pollution and improve air quality (SDG11). Revised price signals can also stimulate the development and adoption of clean technologies (SDG9). For example in Sweden a tax on nitrogen oxide (NOx) emissions from energy generation and revenue recycling mechanism has provided a strong incentive for firms to reduce NOx emissions per unit of energy produced, stimulating...
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**Fiscal policies and the SDGs**

Through their capacity to mobilize domestic resources, encourage efficient use of public spending, stimulate private investment and shift consumer behaviour, fiscal policies can facilitate the achievement of several SDGs and related targets (T) at the global and national level across different sectors – see Table 1.

**UNEP’s work on fiscal policies**

UNEP undertakes analysis on green fiscal policies across different sectors and provides advice to countries. Country studies in Ghana, Kenya, Mauritius and Mozambique identify options to reform fiscal policies to mobilize domestic resources and create fiscal space for green

| **Table 1: Overview of how fiscal policies can support delivery of multiple SDGs**
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<td><strong>6 CLEAN WATER AND SANITATION</strong></td>
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| - Fiscal reforms (e.g. taxes on water abstraction, regulatory levies, subsidies) and water pricing policies (e.g. water supply and sanitation tariffs) can improve water quality (T6.3), increase water-use efficiency (T6.4) and generate revenues to improve access (T6.1).
| - Reforming budgetary expenditures (i.e. subsidies, tax exemptions) in other sectors (e.g. agriculture, energy) can increase the effectiveness of water-related public expenditure, supporting SDG6.
| **7 AFFORDABLE AND CLEAN ENERGY** |
| - Fiscal policies (e.g. energy taxes, carbon pricing mechanisms, incentives for renewables) can support renewable energy generation (T7.2), improve energy efficiency (T7.3), generate revenues to improve access (T7.1), and stimulate private investment in energy infrastructure and clean energy technology (T7a).
| - Reforming budgetary expenditure (i.e. subsidies, tax exemptions) in the energy sector can level the playing field for clean energy, supporting SDG7 and SDG12.
| **8 DECENT WORK AND ECONOMIC GROWTH** |
| - Fiscal policies can catalyse innovation in efficient technologies and generate higher levels of economic productivity (T8.2).
| - Fiscal policies can improve global resource efficiency in consumption and production (T8.4).
| - Fiscal policies can enable a reduction in more distorting taxes (e.g. on labour) which could increase incentives for employment and support full employment (T8.5).
| **9 INNOVATION AND INFRASTRUCTURE** |
| - Fiscal policies can generate resources and create incentives for private investment in R&D for green technologies, support infrastructure upgrades, stimulate adoption of clean and environmentally sound technologies and industrial processes (T9.4).
| **10 REDUCED INEQUALITIES** |
| - Revenues from fiscal reforms can be used to compensate low-income households, mitigate social impacts or support clean technology adoption (i.e. insulation, low-energy light bulbs), thus supporting social protection and greater equality (T10.4).
| - Reforming fossil fuel subsidies (T12c) can reduce inequalities as these subsidies mainly benefit prosperous firms and consumers, supporting SDG10.

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*The specific contribution will depend on the design, implementation, scope and focus of the fiscal policy reforms*
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Investment, while addressing environmental externalities and social equity issues. Other studies examine the role of fiscal reforms in specific sectors such as water and extractive industries; the use of natural resource revenues through sovereign wealth funds to support the SDGs; and the wider impacts of fiscal policies in other sectors such as agriculture and energy.

UNEP works with a range of partners including fiscal authorities such as the International Monetary Fund (IMF), development agencies such as the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), academic institutions, think tanks and green fiscal policy experts such as the Global Subsidies Initiative (GSI), Green Budget Europe (GBE) and national research institutes, to provide policy advice and develop knowledge products on green fiscal policies. The **Green Fiscal Policy Network** is a joint partnership between UNEP, GIZ and IMF which aims to facilitate knowledge sharing, learning and dialogue on fiscal policies to support the green economy and deliver various SDGs.

- Fiscal policies (e.g. landfill taxes, incineration taxes, air pollution charges, congestion charges, vehicle taxes) can improve air quality, municipal and other waste management and reduce adverse per capita environmental impacts of cities (T11.6).

- Fiscal policies (e.g. taxes/fees on forestry and fisheries, material taxes, waste taxes, product taxes, air pollution charges) can incentivize sustainable management and efficient use of natural resources (T12.2), reduce the release of chemicals (T12.4), food waste (T12.3) and waste generation (T12.5).

- Restructuring taxes and phasing out harmful fossil fuel subsidies can reduce wasteful consumption (T12c) and enhance the effectiveness of public spending.

- Revenues from fiscal instruments can support investments to strengthen resilience and adaptive capacities (T13.1), contribute to climate financing pledges (T13.a) and build capacities (T13.b).

- Fiscal incentives (e.g. vehicle taxes) can shift consumer behaviour towards low-carbon choices, complementing efforts to improve education and raise awareness on climate change (T13.3).

- Fiscal policies (e.g. plastic bag taxes, charges on ship-emissions, levies on marine aggregates) can help prevent and reduce marine pollution (T14.1) and support sustainable management and protection of marine and coastal ecosystems (T14.2).

- Eliminating fisheries subsidies (T14.6) will support SDG14.

- Fiscal policies strengthen domestic resource mobilization (T17.1)

- Fiscal policies can help mobilize other sources of financing, including from the private sector (T17.3)

- Fiscal restructuring or reform optimizes state revenues, controls budget deficits and reduces debt-to-GDP ratios, and can contribute to long-term debt sustainability (T17.4)

- Fiscal incentives for clean technologies can stimulate the development, transfer, dissemination and diffusion of environmentally sound technologies (T17.7).
The Green Economy Report, published by UNEP in 2011, makes a compelling economic and social case for investing two per cent of global GDP in greening 10 central sectors of the economy.