



Green Fiscal Policies for Low-Carbon Recovery – Challenges, Solutions and Impact at Local Level

Jacqueline Cottrell
Green fiscal policy consultant
Freelance Associate, Green Budget Germany

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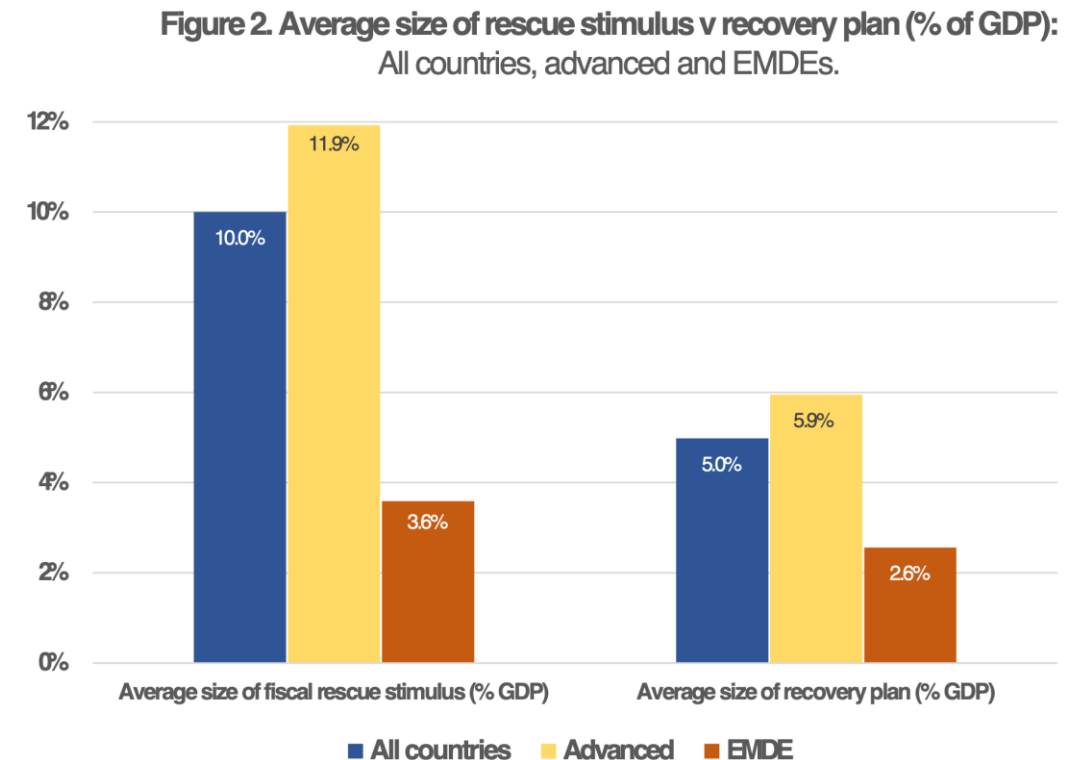


Lack of revenue a significant challenge for low-carbon recovery

- Green recovery is imperative if we are to meet targets of the Paris Agreement and achieve the SDGs
- Huge disparities in spending on stimulus and recovery
- Public health crisis is ongoing, vaccination rates are low in many countries
- Extreme poverty, unemployment, food insecurity are rising
- Fiscal, budgetary, debt crises at national and local government levels

How can we achieve a low-carbon recovery in the face of these challenges?

Uneven spending is leading to an uneven recovery



Fiscal and budgetary challenges in cities and local authorities

- **Falling revenues** from intergovernmental transfers, local fiscal revenues (taxes, service fees, etc.) - estimated average loss 20%
- **Rising operational expenditures** for healthcare, social services, basic protections for the population
- OECD predicts that the **strongest impact of pandemic** on subnational budgets is **expected in the medium term** (OECD 2020) – but already in many cities and local authorities, capital expenditure has been put on hold
- USD 21 trillion pledged by 10/21 for relief but **only USD 1.1 trillion pledged to cities and 80% directed towards short-term liquidity needs**

Challenges to fiscal and budgetary policymaking at the local level

- Limited **powers** to levy green fiscal policies (GFPs) – or to reform them in line with sustainability goals
- Low fiscal autonomy – **flexibility of spending limited**
- Limited **revenue-raising potential** of GFPs at local level
- **Lack of technical and human capacity**
- **Political economy** – immediacy of local political representation – how mitigate opposition to taxes?
- **Administrative challenges** – how to enforce, collect, report, reform...

→ In LMICs local taxation accounts for only 3-5% of all tax revenues (World Bank 2020)

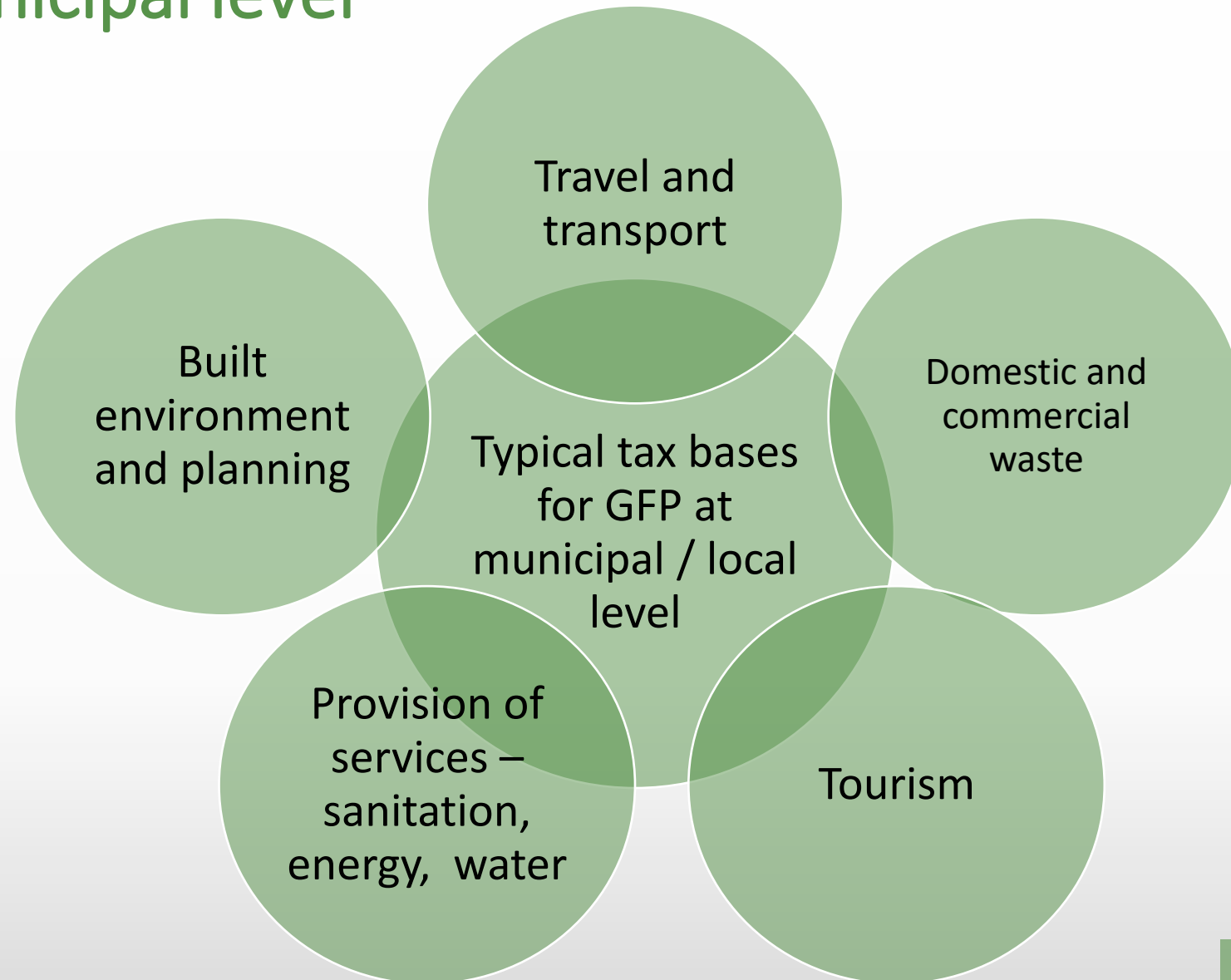
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The crisis has created an opportunity for local authorities to innovate and put their finances on a sustainable path

Green Fiscal Policy (GFP) can support policymakers to take these opportunities, and delivers benefits for all pillars of sustainability:

- GFP can create economic incentives for households and businesses to behave and invest more sustainably and increase the return on sustainable investment
- GFP can mobilize revenue at the local level, in some cases, revenues from taxes and charges can be quite significant
- GFP can deliver environmental improvements e.g. to air quality, and reduce health costs as a result
- GFP can be progressive and enhance social equity, if they are well-designed with equity considerations in mind

Typical tax bases for green fiscal policies at local & municipal level



Travel and transport – policy context

Opportunities:

- Reconceptualization of personal mobility after pandemic
- Maintaining newly created cycle lanes
- Riding the wave of momentum behind active travel

Risks:

- Return to personal car use, poor air quality, congestion

Fiscal measures can:

- Disincentivize car use
- Encourage active travel and shift to of public transport
- GFPs targeted individual car users are often progressive “luxury” taxes, particularly in more unequal societies



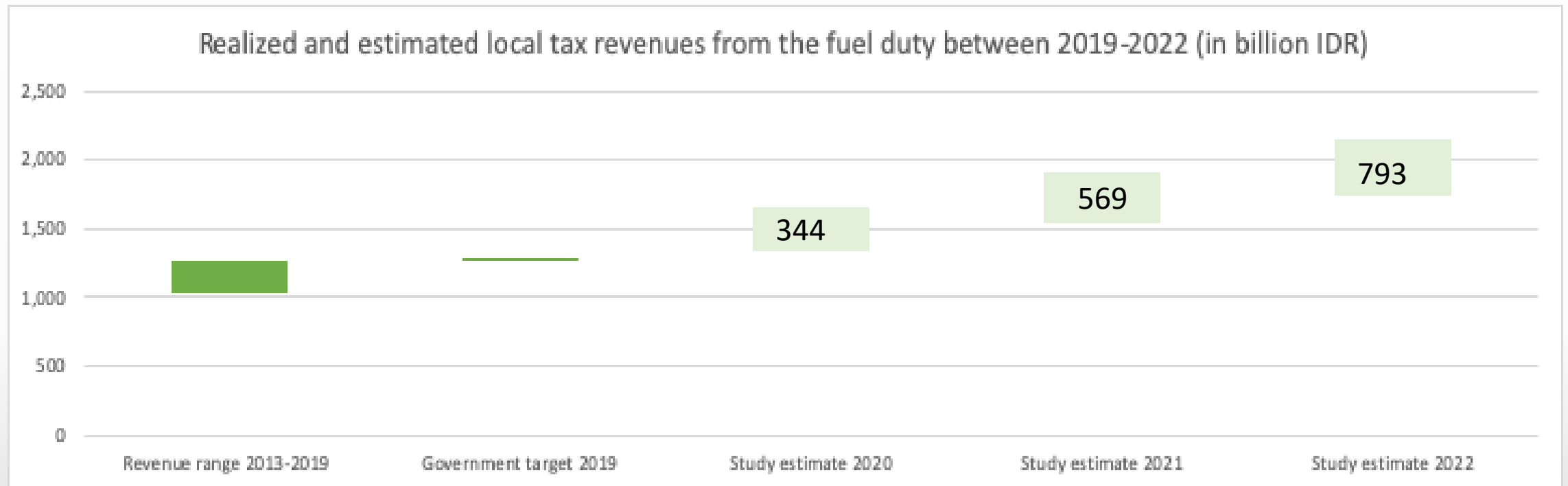
Fiscal policy options for local governments



1. Local taxes on fuels
2. Road pricing and congestion charging
3. Fees for low-emissions zones in cities
4. Parking permits – differentiated e.g. in line with CO2 emissions
5. Parking charges – day tickets
6. Public transport pricing – reduced ticket prices / free transport tickets for the young / elderly / low-income households

Proposal for tax escalator on transport fuels in Jakarta

- Escalator to increase the tax rate to 10% on diesel and 8% on gasoline by 2022 (from baseline 5% in 2019)
- Predicted revenue up to USD 56 million (IDR 793 billion)
- Equivalent to subsidies for 22-72 million public transport tickets



Stockholm: Congestion charging

- 22% fall in traffic volumes since the charge
- 30-50% reduction in congestion
- 10-15% increase in public transport use
- PM10 emissions fell 15-20% in first 4 years
- Health benefits equiv. to USD 2.3 million annually
- Revenue: USD 82 million
- Public transport additional revenue: USD 14 million
- Operational cost: USD 22 million



| Vardagar (ej dag före sön- och helgdag) | |
|---|------|
| Kl | Kr |
| 0630 - 0659 | 10:- |
| 0700 - 0729 | 15:- |
| 0730 - 0829 | 20:- |
| 0830 - 0859 | 15:- |
| 0900 - 1529 | 10:- |
| 1530 - 1559 | 15:- |
| 1600 - 1729 | 20:- |
| 1730 - 1759 | 15:- |
| 1800 - 1829 | 10:- |

Low-emissions zones in Germany



- 57 LEZs in city and town centres in Germany
- Requirement to purchase and display LEZ sticker on vehicle
- Honour system
- Penalty in Berlin is USD 88
- In 2018, 65,000 failed to comply = USD 5.7 million revenue
- LEZs have reduced PM emissions harmful to human health by 10%

Built environment and planning – policy context

Opportunities:

- Job creation: installation of energy efficiency and renewable energy technologies is labor-intensive
- Create financial incentives in a sector that is proving difficult to tackle

Risks:

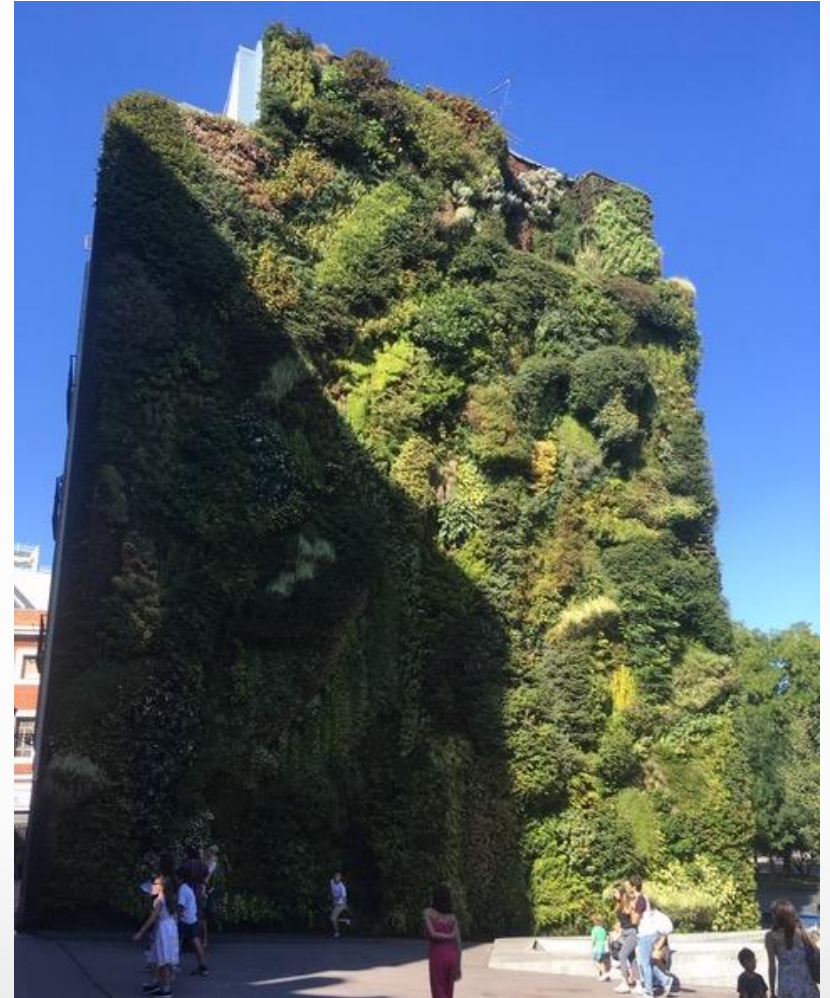
- Lack of progress has characterized the sector in the past – crucial that the recovery from the Covid-19 pandemic moves beyond this failure

Well-designed fiscal measures can:

- Mobilize revenue for green recovery expenditures at the local level
- Be fair and progressive, if taxes target high-value properties – especially in more unequal societies
- Address the problem of split incentives by reducing barriers to investment in energy efficiency and low-carbon energy

Fiscal policy options for city and local governments

1. Property taxes for households and business differentiated according to e.g. energy efficiency of buildings, renewable energy installations, other performance criteria
2. Land value capture – taxes on increases to land value as a result of infrastructure investment
3. On-bill finance: grants for homeowners to retrofit / insulate / improve the EE of their houses, repayment via energy bills or property taxes
4. Fee waivers for certain planning procedures if e.g. energy-efficiency or renewable energy standards are met
5. Sustainable tourism charges



Examples of local property and land taxes in the Philippines

- Idle Land Tax – optional additional levy on assessed value of lands classified as diel – ceiling rate 5% per annum
- Special Education Fund Tax – optional tax imposed at 1% of assessed real value of a property
- Special Levy – optional levy on lands that have specifically benefitted from public works or improvements funded by local government
- Socialised Housing Tax – optional levy on land at 0.5% of assessed value of all lands in urban areas in excess of approx. USD 1,000 (earmarked for low-cost housing projects)



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Betterment levies in Bogota, Colombia

- In Colombia, legislation in place since 1921 for the “contribución por valorización”
- CV is a fee payable on the change in value of land as a result of municipal public infrastructure investment
- Examples: roads, cycle paths, canals, pedestrian bridges, public spaces
- Fees are payable by real estate property owners benefitting from infrastructure improvements
- Collection precedes implementation of infrastructure projects – this is often met with some resistance
- 1960s: 16% of total city revenue
- 1990s: 24% of total city revenue
- In past 20 years: raised USD 1 billion in Bogota

Key take-away:
Innovative Green Fiscal Policies can deliver multiple benefits at municipal and local levels – mobilizing financial resources, bringing about environmental improvements, and fostering a green and efficient recovery



Thank you very much for your attention!



Jacqueline Cottrell
Green fiscal policy consultant

Jacqueline.Cottrell@foes.de

Tel: +44 (0) 789 43 42 504