Aligning development and climate agendas: Tax policy and fiscal implications for the low-carbon transition

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Sustainable development and climate change are inseparable

- The 2030 Agenda will fail without ambitious climate action.
- Development co-operation providers cannot fulfil their mandates if they do not align with the Paris Agreement’s objectives.

How can development co-operation align with the objectives of the Paris Agreement?

Align at home
→ Provide coherent support to developing countries across all areas of foreign policy

Align in developing countries
→ Support developing country governments and other actors to plan, finance, implement the transition

Align at the system level
→ Support consistent international standards and pursue ambitious multilateral action

WHAT ARE KEY CHALLENGES?

Climate action is insufficiently integrated in critical plans and decision making process of developing countries.

Public and private financial systems perpetuate high-emissions, non-climate resilient development.

WHAT ARE PRIORITY ACTIONS?

- Support the **integration of ambitious climate objectives** into development plans and sectoral policies.
- Strengthen **national climate leadership**, particularly at the centre of government.
- Address fundamental resources constraints to **climate capacity** at the centre of government.
- Integrate climate change in **national development financing** strategies.
- Promote the inclusion of climate objectives in **national budgeting and tax systems**.
- Support the **evolution of green financial systems**.

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Role of tax policy in promoting SDGs, including low-emissions, climate-resilient development

1. Raise revenue – domestic resource mobilisation (DRM)
2. Affect equity and growth, including support for a just transition
3. **Steer production and consumption choices** (health, environment, climate,…)
4. Help establish trust and support social contracts

Using taxes for climate action - mitigation

- **Carbon pricing – a key lever for reaching Paris Agreement goals**
- **Solid evidence base needed to inform nationally determined contributions (NDCs).**
- **Energy and carbon tax reform delivers domestic benefits**
  - Reduces local pollution
  - Contributes to domestic resource mobilisation
  - Increases productivity and steers investments in future-proof assets

Using taxes for climate action – OECD work

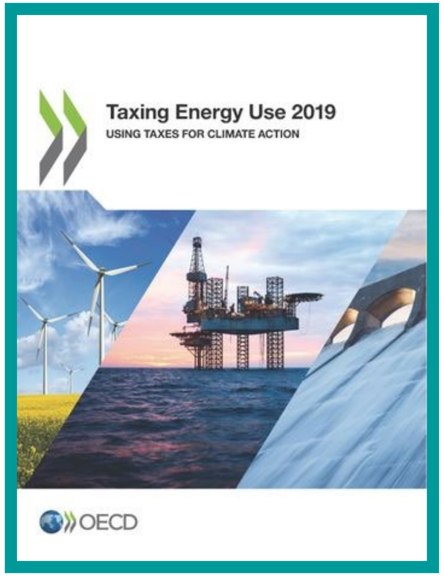
- Create detailed, comprehensive and internationally comparable data on fossil fuel support, energy taxes and emissions trading systems to support policy design, monitoring and evaluation

    Taxing Energy Use, Effective Carbon Rates

- Produce analysis on environmental fiscal reform:

    Working papers on revenue use, transport tax reform, technology bias, household incidence (equity, affordability), carbon pricing design, competitiveness.

- Engage in policy dialogue



Using taxes for climate action – OECD engagement

- In dialogue with countries
- Carbon Pricing Leadership Coalition
- Coalition of Finance Ministers for Climate Action
- Paris Collaborative on Green Budgeting
- UN Subcommittee on Environmental Taxation

Fiscal implications of the low-carbon transition

- Green Growth and Sustainable Development Forum 2019: Greening heavy and extractive industries – innovation and fiscal implications

- Stranded assets – difficult challenge of diversifying the economy; localized opportunities

Discussion and Q&A

Paris Alignment report available at **oe.cd/Align**

Taxing Energy Use report available at **oe.cd/TaxingEnergyUse**

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