

Finding Money to Pay for Adaptation: Economic Instruments



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Agenda

1. What are economic instruments or fiscal policies?
2. How do they work? Some examples
3. Example from the Philippines
4. Group discussion



1. What are economic instruments or fiscal policies?



What are they?

Economic Instruments	Impacts
Taxes, charges and fees	Impose a higher cost for a good or service
Subsidies (reform of)	Move part of the cost of a good from the consumer to the tax payer
Public Insurance Mechanisms (reform of)	De-risking public and private investments
Market mechanisms for environmental goods	Tradable permits for pollution (GHGs) or water abstraction, compensation mechanisms
Green/Climate bonds	Raise revenues for projects



Fiscal instruments increasingly used in climate policy

39 INDCs use fiscal instruments (including the EU representing 28 countries)

- 25 clean energy subsidies
- 13 fossil fuel subsidy reform
- 13 carbon pricing mechanisms



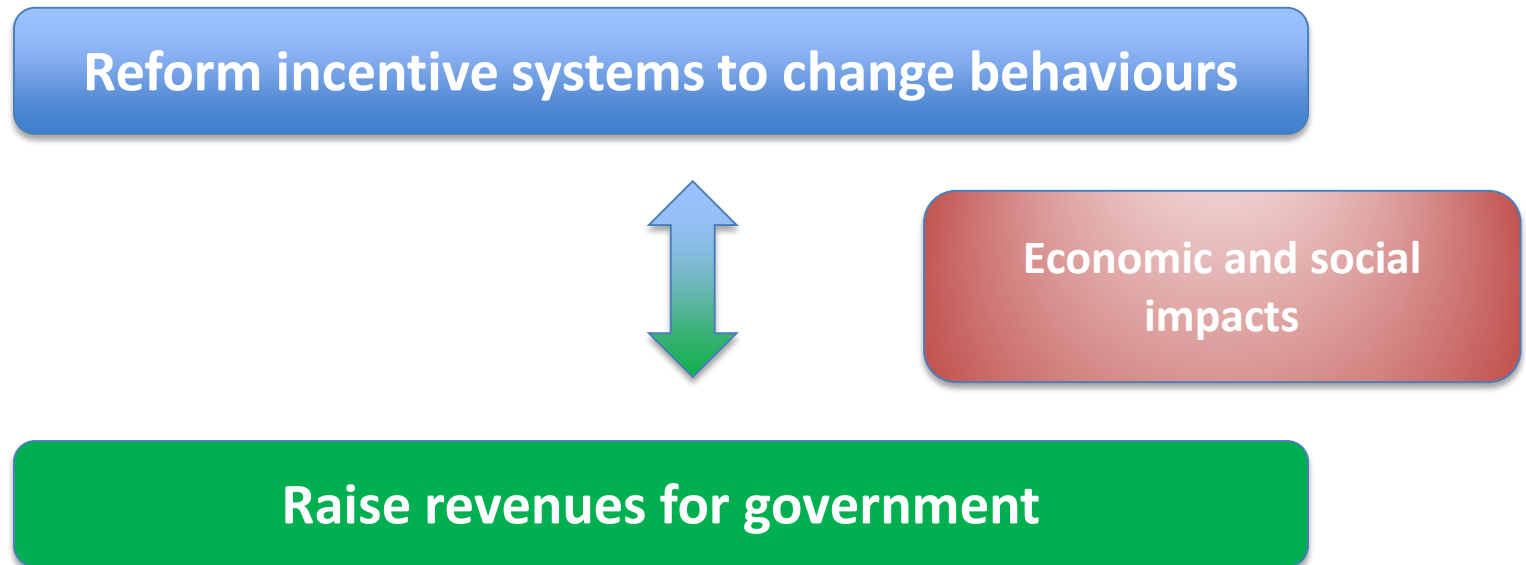
Dual purpose of economic instruments



Reform incentive systems to change behaviours

Raise revenues for government

Considerations for implementation





Use of revenues

1. Revenues earmarked for specific objectives
2. Revenues recycled to those who are subject to the tax
3. Revenues allocated to general government spending



To earmark or not to earmark?

According to economic theory (non-affectation principle):

- Earmarking reduces economic efficiency – a tax rate should not be set to achieve a revenue target, but to tackle externalities
- Earmarking reduces flexibility in government spending

At the same time...

- Earmarking can increase public acceptance
- Earmarking can provide confidence to beneficiaries of subsidies



2. How do they work? Some examples



Carbon taxes





	Year of implementation	Revenues raised	Earmarking
Costa Rica	1997	N.A.	Yes
Mexico	2014	\$ 1 Bn	No
South Africa	2017	Revenue neutral	Yes
Chile	2018	\$ 160 M	Yes

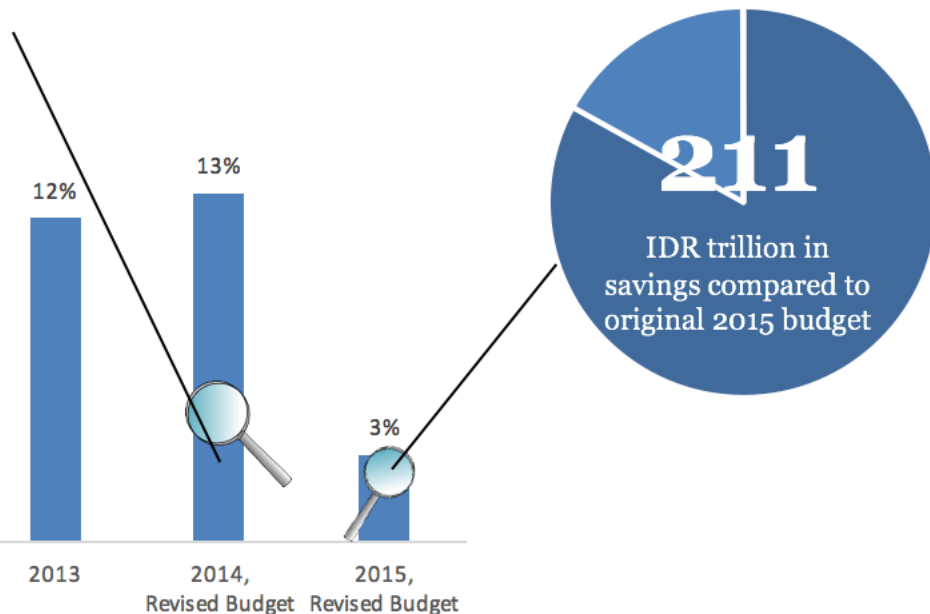
Indonesia –

Fossil Fuel Subsidy Reform



IDR 246 trillion budgeted for gasoline and diesel subsidies in 2014. Equal to:

-  Nine mass rapid transit (MRT) projects to provide public transport and relieve congestion
-  3,900 1 MW wind turbines
-  1.3 million hospital bed overnight stays
-  205 million children's annual school costs





Indonesia – Fossil Fuel Subsidy Reform

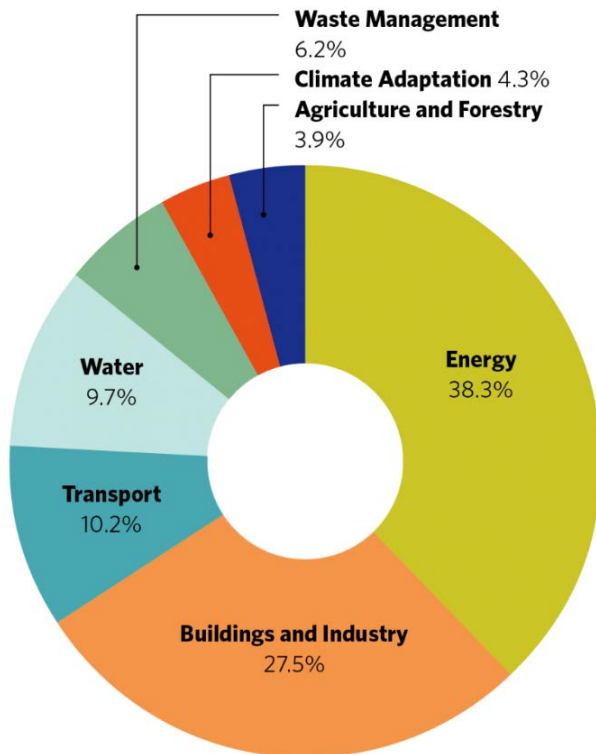
The Government has reallocated fuel subsidies totalling approximately USD 16 B to productive sectors and social programmes.

- USD 2.5. B will be earmarked for infrastructure projects, e.g. irrigation, dams, flood control and coastal development.
- USD 1.2 B will be earmarked for connectivity needs, e.g. roads, toll roads and port access.
- USD 400 m will be earmarked for water supply, sanitation and health programmes, and rehabilitation of poor urban areas.

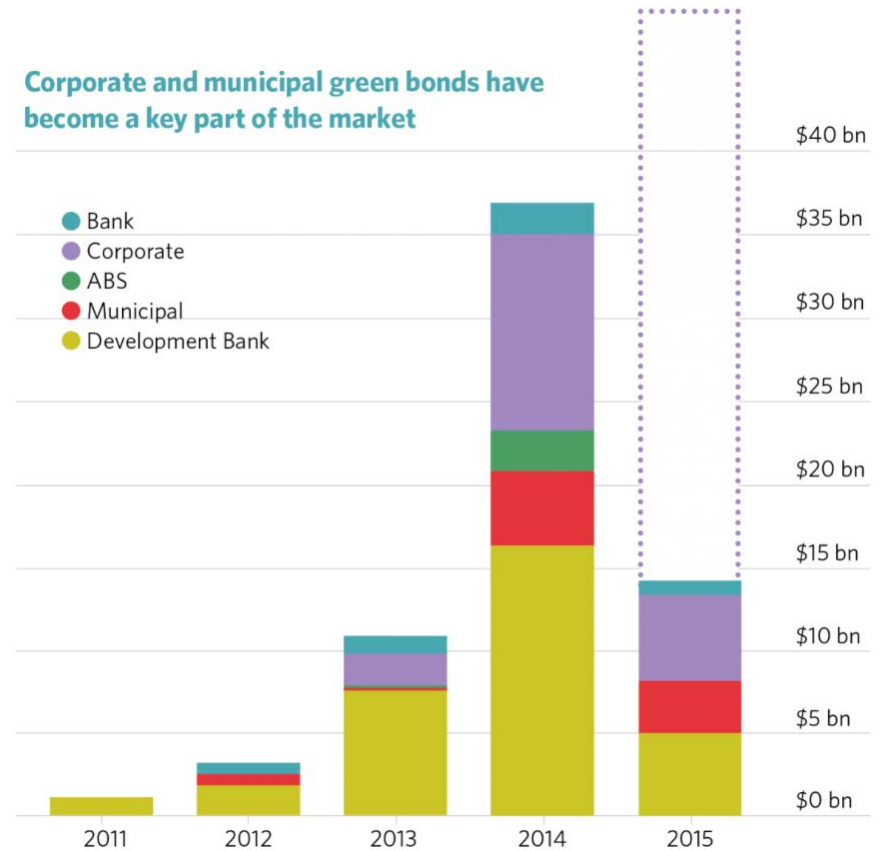


Green/climate/water bonds

Green bonds use of proceeds



Corporate and municipal green bonds have become a key part of the market



Source: Bonds & Climate Change - The State of the Market in 2015



3. What does it mean for NAPs?



2 options for adaptation

Design economic
instruments to...

Build resilience

+

**Raise funds for
adaptation**

**Earmark funds for
adaptation from
new (unrelated)
economic
instruments**