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Options for promoting Environmental Fiscal Reform in EC Development Cooperation

Draft Inception Report

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Experts:

Kai SCHLEGELMILCH

Pendo MARO

Stefan SPECK

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1. INTRODUCTION

1.1 Purpose of the project /report

The study, commissioned by DG DEV, aims to identify five ACP countries with a good potential for successful support for Environmental Fiscal Reform (EFR) by the European Commission, as well as to identify entry points for informed decisions about what fiscal reforms would be most relevant, and how the EFR process can be effectively designed and implemented in those countries.

The Terms of Reference (ToR) spells out the purpose and objectives as well as the tasks of the project as follows:

> The current study aims to provide an overview of where Environmental Fiscal Reform (EFR) actions are being carried out and possibly supported by donors, and to where they could be undertaken within the context of the current generation of CSPs and RSPs (2007-2013). Furthermore, for those countries where such actions could be undertaken, the study should provide a starting point for informed decisions about what reforms are most relevant to a variety of specific sectors, and how the EFR process can be effectively designed and implemented.
>
> The purpose of the assignment is to provide an overview of which developing countries are undertaking EFR-actions (possibly with donor support), based on information from different sources (World Bank, OECD, GTZ, others).
>
> Furthermore, the study should establish criteria to identify where there is a good potential for successful EFR support by the EC within the context of the current generation of CSPs and RSPs (2007-2013). The study should select the best 5 candidate countries for such possible support, and for those countries provide a starting point for informed decisions about what reforms are most relevant, and how the EFR process can be effectively designed and implemented by means of case studies

1.2 Structure of the report

This report presents and explores the concept of environmental fiscal reform (EFR) as well as discusses some practical examples of EFR as implemented throughout the world. In addition, it debates the criteria used in selecting several ACP countries for a more detailed analysis. As mentioned in the ToR, this latter aspect is of particular concern for this project as it may lead to the provision of EC support for up to five ACP countries within the context of Country Strategy Papers (CSPs) or Regional Strategy Papers (RSPs) if there is a good potential for the success of an EFR.

The underlying rationale and principle of EFR is revealed in Chapter 2 thereby discussing the different benefits (environmental, fiscal and social) associated with the successful implementation of an EFR in the literature as well as emphasizing the different economic instruments which can be applied as part of an EFR. Chapter 3 discusses the criteria being used in the identification of 25 ACP countries (first round) and furthermore in the selection of five ACP countries (second round) which will be analysed in more detail. The actual application of the criteria in the selection process is reviewed in Chapter 4 thereby revealing the findings of the selection process, i.e. the five countries selected. Preliminary conclusions are drawn in Chapter 5.

2. METHODOLOGY: ENVIRONMENTAL FISCAL REFORM (EFR)

2.1 Definition of EFR

The concept of an environmental fiscal reform (EFR) has been on the political agenda for more than two decades and has been introduced in many countries. A common notion of what EFR stands for can be found in two rather similar reports published by the World Bank (2005) and the OECD:

> "Environmental fiscal reform" (EFR) refers to a range of taxation and pricing measures which can raise fiscal revenues while furthering environmental goals. This includes taxes on natural resource exploitation or on pollution. EFR can directly address environmental problems that threaten the livelihoods and health of the poor. EFR can also free up economic resources or generate revenues that can help to finance access of the poor to water, sanitation and electricity services (OECD, 2005, p.24).

The World Bank report is referring to the concept of EFR in the same way as the OECD stating that '*this is achieved by providing economic incentives to correct market failure in the management of natural resources and the control of pollution* (World Bank, 2005, p. 7)'. The OECD / World Bank definition of EFR emphasizes the revenue-raising capacity as well as the incentive aspect (i.e. 'while furthering environmental goals') of economic instruments.

It is worthwhile mentioning that the concept of an ecological tax reform (ETR) is more widespread in the European context and can be seen as a form of an EFR. This fact is insofar of significance as European countries are often described as the forerunners in the implementation of these policy approaches. The difference between the two concepts, i.e. between ETR and EFR, becomes clearer in the definitions used in a report published by the European Environment Agency (EEA, 2005, p.84):

> Environmental tax reform (ETR) is a reform of the national tax system where there is a shift of the burden of taxation from conventional taxes, for example on labour, to environmentally damaging activities, such as resource use or pollution. The burden of taxes should fall more on 'bads' than 'goods' so that appropriate signals are given to consumers and producers and the tax burdens across the economy are better distributed from a sustainable development perspective.
>
> Environmental (or ecological) fiscal reform (EFR) is a broader approach, which focuses not just on shifting taxes and tax burdens, but also on reforming economically motivated subsidies, some of which are harmful to the environment and may have outlived their rationale …. EFR is a more recent development than ETR and offers more opportunities for progress, and is more in line with the 'polluter pays' principle and the concept of sustainable development.

The underlying rationale of EFR and ETR is clearly overlapping as both concepts are aiming to accomplish several policy objectives simultaneously, i.e. achieving environmental, fiscal / economical and social / pro-poor benefits[1]. However, a difference between the concepts of ETR and EFR is evident as the former

[1] See for a more detailed discussion on the potential benefits: OECD, 2005, Chapter 1 and World Bank, 2005, Chapter 2.

approach discusses the revenue raising potential of an ETR in the context of shifting the burden of taxation. This implies that the policy goal of this approach is not to increase the national budget, i.e. the revenue neutrality principle is often used as a synonym for describing this outcome in the European context. The concept of an EFR in the line with the OECD and World Bank meaning is undoubtedly directed to the policy objectives of raising fiscal revenues which then can be used for a range of different policy objectives as discussed in more detail below. Nevertheless it can be stated that domestic resource mobilisation is – apart from reaching environmental benefits in form of reduced environmental pollution and reduced natural resource consumption – an important policy goal of EFR and ETR. What follows is that EFR can be seen as a policy tool linking fiscal and environmental policy which has not attracted a lot of attention from fiscal and / or environmental policy makers.

The concept of an EFR is rather striking because of its complexity as it considers not only a range of policy measures and economic instruments which can be implemented but it also discusses options of how revenues can be spent. EFR is not a 'stand alone' policy package as it is must always be aligned with the prevailing economic, legal and institutional framework. In addition, it must be highlighted that EFR is only a policy package as emphasized by the OECD:

> These [EFR] instruments do not substitute for but complement and strengthen regulatory and other approaches to fiscal and environmental management. EFR instruments should therefore be thought of components of fiscal and environmental policy mixes …. it is only one of the ways through which fiscal authorities can raise additional revenue (OECD, 2005, p.24).

A crucial fact has to be considered when speaking about the potential benefits of an EFR. One of the features of an EFR is the attempt of achieving multiple objectives / benefits simultaneously. However, trade-offs can exist between these multiple objectives meaning that the realisation of one of the policy objectives may exclude another benefit. For example, there can be a conflict in the simultaneous realisation of environmental and fiscal benefits because of the divergence between the revenue-raising capacities of specific economic instruments implemented as part of an ETR and their capacity of being environmental effective, i.e. the economic instruments, such as a SO2 tax, is environmental effective thereby reducing the tax base leading to a decline in the revenues generated from this economic instruments. This implies that it has to be asked why an economic instrument has been implemented when its effectiveness is analysed, i.e. what are the policy objectives for its introduction.

When setting the scene it is rather useful to emphasize the distinct starting point underlying the concepts of ETR and EFR. The former concept is implemented in developed countries as compared to the latter which is currently promoted in the context of developing countries. The World Bank report makes this quite clear as it states the following:

> Broadly speaking, EFR can: 1) mobilise revenue for governments; 2) improve environmental management practices and conserve resources; and 3) reduce poverty (World Bank, 2005, p.1).

The last feature of EFR 'reduce poverty' must probably be seen in the wider context of sustainable development and especially the Millennium Development Goals (MDGs). Furthermore, it is clear that this aspect played a minor role in the ETRs implemented in developed countries as reflected in how the revenues generated as part of the ETR are mainly used. They have been used in a revenue neutral way meaning that the overall budgetary resources remained constant as ETRs are introduced as a tax-shifting programme[2]. This is in contrast to the EFR concept as one of its decisive aspects is that the revenues generated can and may be used to finance poverty reduction measures. This difference with regard to the

[2] It seems useful and timely mentioning the most current discussion in the context of ETR (tax-shifting programme) in the UK. The current economic and financial crisis and the policy measures addressing the crisis led to a dramatic increase in the public deficits. It may now be argued - as done by the Green Fiscal Commission in the UK - that an increase in environmental taxes are undertaken instead of an increase in other taxes, such as VAT, income taxes, etc., to reduce the public deficit. This proposal is not in line with the revenue-neutrality of ETR but can be linked to the idea of domestic resource mobilisation which is one of the principle of EFR (Green Fiscal Commission, 2009).

overall policy objective is not too far-reaching and it can therefore be argued that ETR is a special form of EFR.

2.2 Discussing EFR in the context of developed and developing countries

The political reality shows that EFR is a policy package that could be applied both in developed and developing countries. However, the exact design of the EFR must reflect the different general conditions (economic, political, institutional, social, legal, etc.) as well as the policy objectives which the countries want to realise. This implies that there is no 'one fits all' approach. The starting point between countries is different which will also be mirrored in the economic instruments to be available and is discussed in more detail below. Another aspect underlining these differences is the question what will be made with the revenues raised by the EFR. The discussion of EFR in the developing country context stresses the social and 'pro-poor' benefits because additional funds generated by EFR instruments may be available for investments thereby improving the health sector, education etc. The aspect of domestic resource mobilisation and thereby potentially increasing the national budget is in contrast of very limited relevance in developed countries.

The significance of generating additional funds can partly be explained by the often large differences between countries. Foremost the difference is striking when comparing to 'tax revenue-to-GDP' ratio between developed and developing countries. For example, the EU as a whole is a high tax area[3] – also compared to other developed countries, i.e. non-European OECD countries - as the tax ratio amounts to about 40% but can also be close to 50% in countries, such as Sweden. This ratio can be compared to the situation of developing countries where the ratio is often around 20-25% revealing that governments are regularly lagging the financial resources for necessary investments and / or for funding social programmes and thereby improving the situation of the poor. In addition, developing countries are regularly relying on trade taxes as a source of generating funds for the national budgets. This type of a tax can be lead to some problems because of the question whether trade taxes are fully compatible with WTO regulations[4].

This discussion shed some light on the differences countries are facing, in particular related to potential fiscal benefit. In the case of developing countries the fiscal benefit, i.e. domestic resource mobilisation, may rather be associated with social and 'pro-poor' benefits. The situation in developed countries is not the same as the issue of not increasing the overall tax burden in case of an EFR/ETR is to the fore, i.e. adherence to the principle of revenue neutrality. In fact, the spending programme of revenues generated by an EFR can be designed in a way to overcome political resistance. To this end, the spending may be equally important in these countries, but likely for other country-specific purposes and policies.

However, the environmental benefits associated with EFR are undoubtedly similar as the EFR should provide incentives for curbing environmental pollution as well as incentives for sustainable natural resource management. Furthermore, EFR can be seen as part of an overall reform process by broadening the tax base as well as in the context of a public finance management reform.

2.3 Instruments to be applied as part of an EFR

EFR is a broad concept with regard to policy measures which may be implemented. In general, a distinction between the following four types of EFR instruments is made (OECD, 2005 and World Bank, 2005):

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[3] See for a detailed discussion with regard to the tax-to-GDP ratio and data for the individual EU member states: Eurostat, 2007

[4] Trade taxes and non-tax revenues, such as fees and royalties from natural resource taxation, are making up around 28% of total government revenues in Latin America and of around 30% in Indonesia as compared to only 15% in OECD countries. The relative ease of collection and enforceability is one of the reasons for the significance of trade taxes in developing countries (OECD, 2008a).

1. taxes on natural resource extraction (renewable resources: forestry, fishery; and no-renewable resources: minerals, etc.)
2. environmentally related taxes and charges (product taxes, taxes on polluting substances, taxes on energy, etc)
3. subsidy reforms
4. user charges (for the delivery of services in the field of water supply, sanitation and waste)

The majority of developing countries are relying on the extraction of natural resources and which are legally owned by the state. Natural resources are important for many reasons as they are major inputs in industrial processes, and are important for the livelihood of the population. In addition, they can be a significant source of revenues for the state. However, establishing an efficient and effective form of a taxation scheme of natural resources is rather complex and requires a properly functioning institutional set-up[5].

A large number of different instruments are belonging to the second type of EFR policy tools. There are slightly different classifications of the instruments falling into this category. The key difference is whether the tax is levied on actual emission or pollutant or is based on either inputs or outputs from a polluting activity (World Bank, 2005). Water effluent taxes and air emission taxes are belonging to the first category. More important in terms of their revenue-generating capacity are the taxes of the second category, in particular taxes levied on energy use. For example, energy taxes are amounting to between 70 and 80% of total revenue from environmental taxes at EU level (Eurostat, 2007) as compared to about 40-50% in Sri Lanka where the revenues from taxes levied on motor vehicles are comprising of up to 55% of total environmental tax revenue (Ministry of Environment and Natural Resources Sri Lanka, 2008). This example also reveals that developing countries may have rather low energy tax rates and tax exemptions[6]. The setting of tax rates is essential for achieving the incentives and efficiency gains associated with these economics instruments.

Furthermore, transport fuel prices are sometimes regulated by the government in developing countries. This can lead to a situation that increases in world oil prices are not transposed into the domestic prices. Such policy may hinder social unrest which may be caused by increases in the domestic energy prices but may also have a negative effect on state finances as the government may grant subsidies to the energy companies offsetting their losses. An example of this situation could be found in Sri Lanka (Ministry of Environment and Natural Resources Sri Lanka, 2008).

The discussion of a subsidy reform[7] is not limited to the EFR framework but a policy issue deserving much broader attention in the political reality considering the large number of reports addressing this issue in recent years (see EEA, 2005 and in particular UNEP, 2003 and OECD, 2007). The existence of subsidies[8] is a phenomenon which can be found in developed and developing countries. For example, it is estimated that US energy subsidies are worth USD 49 to USD 100 billion per year from federal policy alone and are distributed to oil, gas, nuclear power and ethanol (Koplow, 2007, p. 106). Even more striking are the most recent figures of Indonesia reporting that the combined subsidies for energy fuels and electricity are estimated to be in the range of USD 20.5 billion in 2008 amounting to 'about 20% of total GOI [Government of Indonesia] spending and outstripping GOI spending on housing, law and order, health and education combined (Jacobs, 2009, p.xiv)'. This latter figure is undoubtedly revealing the magnitude of subsidies currently in place. The importance of a subsidy reform is also reflected as subsidies are fixing a large sum of scarce funds of the government and in the case of Indonesia exceeding spending of policy programmes which would otherwise benefit the poor part of the society. In addition, subsidies are regularly being granted

[5] See for a more detailed discussion and example of natural resource taxation: OECD, 2005, chapters 5 and 6. Further information on the linkage between natural resources pro-poor growth in the recently report published by the OECD: OECD, 2008b.

[6] See also the discussion in World Bank, 2005, p. 38

[7] Subsidy reform does not always imply that subsidies have to be abolished completely. This term can also be interpreted in a sense that subsidies are reduced over time and / or restructured.

[8] A unique and widely accepted definition of the term 'subsidy' cannot be found in the literature – see for a discussion regarding this term: EEA, 2005, Chapter 5.

as special social policy objectives which should be realised and also to protect the poorer part of the society from increased prices and costs. However, these goals are not always realised as revealed by two reports analysing the effectiveness of energy subsidies in developing countries (Coady et al., 2006 and Lueth et al., 2006)[9].

The findings of these reports as well as the political reality clarify the urgency of starting a subsidy reform aiming at freeing up scarce budgetary resources. This is of significance as developing country governments do need to raise domestic revenues for investments in healthcare, infrastructure and the environment for meeting the MDGs. But subsidy reform does not necessarily mean to remove all subsidies but rather to reduce and / or restructure subsidies so that only the poor are benefitting from them.

The EFR instruments discussed so far have in common that they can generate additional budgetary funds (i.e. achieving fiscal benefits). The last type of EFR instruments can only lead indirectly to the goal as 'user charges … are payments in return for the provision of a service (OECD, 2005, p. 34)'. The most well-known examples are user charges (also called tariffs) for water and sanitation and for waste collection. The aim of these pricing tools is not to raise revenues for the national budgets but to cover the actual costs of the service provider which can be either a private or a public company. It is regularly the case that the government will or have to cover the shortfall in revenues by service providers when their costs are not covered by the receipts of user charges. This is often the case in developing countries as the setting of user charges can be either influenced or regulated by the government. In this situation the introduction of user charges or their increase can free up budgetary resources as the transfer of governmental resources can be reduced. Hence the saved resources can be used for improving the quality of service provisions, i.e. investment in infrastructure, or funding other policy objectives. This indirect effect may be valuable but it is essential in the context of analysing the potential of EFR to highlight that user charges should not be seen as revenue raising tool for the national government but for the service provider.

2.4 EFR revenue spending programmes

Re-visiting the notion of an EFR is interesting when studying the its revenue spending potential since the definition used by the OECD and World Bank is slightly vague regarding how they can be spent. However, the question of using the revenues generated either by environmental taxes or by reforming or scaling back subsidies is key feature of an EFR. In general, several options of revenue allocation, which are not necessarily mutually exclusive, can be thought of:

1. Revenues accrue to the National Treasury /Finance Ministry and are allocated to priority spending needs through the normal budgetary process, for example for pro-poor investments as well as investments related to health, education;
2. Revenues accrue to the Treasury and are used as part of a tax-shifting exercise to reduce the tax rates of other distortionary taxes such as those imposed on labour;
3. Revenues are 'earmarked', 'hypothecated' or 'ring-fenced' for finance pre-determined programmes. For example, spending on specific environmental investment programmes, e.g. renewable support programmes, but also for pro-poor programmes;
4. Revenues accrue to the Treasury but there is some form of 'agreement' that spending on environmental programmes will be increased through 'on-budget' channels.

[9] For example Lueth et al (2006) summarised that '*fuel subsidies are not a cost-effective approach to protecting the real incomes of low-income households*' and '*…subsidies are typically inefficient and regressive, as evidenced by the substantial leakage of existing subsidies to high-income households*'.

It is interesting that the OECD is referring to option 2 using the phrase of a 'comprehensive EFR'[10]. This option can be described as the basic framework of the ETR as implemented in several EU member states, including Denmark, Sweden, Germany and the UK. It follows the revenue neutrality principle meaning that this process leaves the overall budgetary position of the government constant as the generated revenues are used to offset the losses of tax revenues caused by a reduction of other distortionary taxes.

Although it can be envisaged that the second option could be of some interest for developing countries, option 3 may be of greater relevance and interest. In contrast to the 'tax-shifting' policy referred to in option 2, earmarking revenues from environmental taxes for spending on specific environmental programmes (option 3) is promoted by some interest groups. However, earmarking (or hypothecating) tax revenues does not generally constitute sound fiscal management practice; an assertion heavily supported by international best practice. Despite these arguments, earmarking of tax and charge revenues for environment purposes is practised in some countries, particularly in the new EU member states during the transition period as a form of leveraging EU funds for environmental investment programme. Revenue recycling can also help to increase the acceptability of the EFR process by the public.

2.5 Design of an EFR

The design of an EFR must take into account country-specific features and conditions (legal, political, economical, legal, institutional, etc.) which implies that there is no EFR approach of one fits all. This can already be seen in the context of the ETRs – a special type of an EFR - implemented in EU member states over the last two decades. Although all countries either introduced new or increased existing taxes levied on energy products, the adopted recycling mechanism differed widely. The reasons for these differences are manifold reflecting that the underlying fiscal systems do largely differ between developed countries and that the policy objectives of the different governments also differed, i.e. the question of which fiscal, environmental and economic benefits should be addressed and achieved.

The importance and complexity of designing an EFR successfully is stressed in the OECD publication as a whole chapter is attributed to this issue. Interesting to mention is the fact that, although the definition of EFR as applied by the OECD is rather short and vague in the spending site of this reform process, the discussion of revenue allocation is portrayed as one of the key features when an EFR is designed.

Different aspects and dimensions have to be taken into account when designing an EFR. First and foremost, aspects of equity, environmental vs. fiscal effectiveness (i.e. the possible trade-off between the revenue-raising capacity vs. environmental improvement), administrative and political feasibility are to be considered. These more general aspects ('sine qua non' conditions) should be integrated in every EFR proposal for being successful. Other design features are crucially depending on the question of the policy objectives of the EFR, i.e. which policy objectives are being addressed[11].

Policy measures addressing the potential public unease with EFR proposal should be taken seriously and dealt with during the design phase. This unease is not too surprising as any EFR instrument will lead to an increase in the burden as the instruments will raise end-user prices. The measures overcoming some of these attitudes can be divided between mitigation and compensatory measures. The former ones are ex-ante measures implying that, for example, the potentially most vulnerable groups are either partly or fully exempt from the EFR instrument. For example, industrial sectors are regularly facing lower energy tax rates then the service sector and households. Another mitigation measure which can be found in several developing countries is the application of increasing block-tariffs (user charges) for water and electricity.

[10] See definition of OECD, 2005, p.35: *"Comprehensive" (or "cross-sectoral") EFR refers to approaches that build-in environmental considerations in macro- or sectoral-level tax policies, through reforms to instruments such as corporate taxes, depreciation allowance and others, in order to support broad fiscal reform objectives while providing an environmental orientation to the general tax structure.*

[11] A detailed discussion of how to design the EFR process can be found in OECD, 2005, Chapter 3.

Compensatory measures are being applied differently as they are ex-post tools. This means that there are no exemptions with regard to the EFR instruments but that affected sectors may be eligible for special public support measures aiming to mitigate the higher burden caused by application of the EFR instrument.

The outcome of these measures is rather different with regard to the revenue accrued as mitigation measures will undoubtedly lead to lower revenues which is not the case when compensatory measures are applied. Compensatory measures also have financial implications, as the practice is that parts of the generated revenue are being used for their financing.

2.6 Examples of EFR

As discussed above the concept behind EFR as applied by the OECD and World Bank is very broad, in particular, when considering the four types of instruments which are listed as being a component of an EFR policy package. Therefore it can be argued that EFRs are in one way or the other implemented in all countries as for example user charges for service provisions as well as electricity tariffs are adjusted over time. However, this does not say anything whether the underlying principle and objective is achieved and that the costs of service provisions are covered by user charges and not being subsidised from other sources.

Probably more interesting and also closer to the idea and concept behind EFR are policies dealing with the other EFR instruments as they have in common addressing the environmental and fiscal features simultaneously and therefore providing the required funds for financing either poverty reduction measures or environmental infrastructure.

2.6.1 Developed countries

Examples of ETRs are widespread and in detail documented in reports published by international institutions, national governments, NGOs and academics. Providing a comprehensive overview of reports discussing ETRs is not possible owing to the limited time and budget constraints. A selected list of reports can be found in Annex 1.

2.6.2 Developing countries

The main focus of the project is directed to EFRs in developing countries and in particular in ACP countries. During recent years a whole range of reports have been published analysing the use of economic instruments in developing countries. The analysis underlying many of these reports is not directed to the concept of EFR but rather to highlight the general use of economic instruments in environmental policy[12]. Discussions on the revenue potential of economic instruments have often been blanked out.

However, the most recent political development reveals that countries, such as Vietnam and China, are showing great interest in EFR as questions of what will be done with the revenues generated are explicitly discussed at the political agenda[13].In Vietnam, the Prime Minister has decided that by 2011 an Environmental Tax Reform shall be introduced. The revenues shall be used for environmental protection. In China, the China Council on International Cooperation on Environment and Development (CCICED) has set

[12] See for example the reports published by international organisations: Inter-American Development Bank (2003a and 2003b), UNEP (2004), Asian Development Bank (1997). In addition, individual countries, such as South Africa and Sri Lanka, carried out similar studies – see Annex 1 (it has again to be stated that this overview/list of studies must not be judged as complete and exhaustive). These country studies did highlight the revenue raising aspect of economic instruments but stopped short in analysing potential spending programmes.

[13] See for example the statement of the Prime Minister of Vietnam as quoted in ETAPC, 2008, p.15: *An Environment-Related Tax Law will be summated to the diet before the end of 2008, which imposes taxes on goods and services polluting the environment. The tax base will be decided on each product and service which pollutes the environment. The revenue of the tax is used only for special purposes of environmental protection, and not approved to cover any other needs of the state budget.*

up a Task Force in 2008 which should i.a. examine the potential for the introduction of environmental taxes. An interim report was delivered in November 2008 to the Annual General Meeting (AGM), the final report is due November 2009 at the AGM. The recommendation of the former is to gradually increase energy prices in line with the energy productivity so that it is predictable, energy efficiency is boosted, but nobody would be worse off. Other countries such as Indonesia, Tunisia and Morocco have shown some interest, but are not yet in a position to examine concrete steps.

So far, it can be stated that - based on the finding of the desk /literature reviews - CSPs and RSPs rarely include any environmental economic assessment or discussions of economic instruments which are applied in the environmental field in the respective countries. The discussion of environmental issues is a regular component of these reports focusing on the environmental profile of the country and / or region and highlighting the environmental problems of the respective countries (for instance, biodiversity loss, water shortage, environmental pollution, etc). They fall short in identifying policy measures/instruments currently implemented with the aim of overcoming these problems. However, the EC can imagine EFR as a potential tool in development cooperation as stressed in a recent document (EC, 2009a). The EC stressed that advice and capacity building in this field of linking environmental, fiscal, social economic features can be provided. Although the term EFR is not explicitly noted in the 2007 African Development Report (AfDB, 2007[14]) it covers all aspects of an EFR. For example, it refers to Botswana where the 'government relies heavily on diamond rents and has made significant investments in education and health, with impressive results (AfDB, 2007, pp.152-153).

The massive increase in the world oil price in 2008 led to a rethink in many developing countries, in particular in those with energy price regulations. The increase in the world oil price has not been passed on to the final consumers causing huge subsidy payments to energy distribution companies as mentioned above with regard to Indonesia. Subsidy reforms reflected in an increase in the end-user energy prices were common during 2008 as the huge drainage of public funds to subsidise energy prices (keeping these prices artificially low) could not be financed any more. The starting point for this policy process has not been any environmental considerations but undoubtedly fiscal considerations.

2.7 Summary and conclusion

During recent years environmental fiscal reform (EFR) became quite prominent on the political agenda as part of international development policy, in particular with the publication of the above mentioned World Bank and OECD reports. For example, the OECD Development Assistance Committee concluded that *'EFR is an important part of the development policy tool kit* (OECD, 2005, p.12)'.

EFR is not only assessed as important from the perspective of developed countries but also developing countries are realising it's potential. One of the most prominent examples is South Africa[15]. The potential advantages and benefits associated with an EFR are clear-cut in the theoretical discussions but they are also achieved in political reality as revealed in different reports covering the experiences of developing countries (see Annex 7.3).

However, it must be clearly stated that there are obstacles and also drawbacks linked to EFR. The main obstacles impeding the introduction of EFR and especially EFR instruments are distributional issues and the potential loss of competitiveness. The origin of these fears is that EFR instruments, such as environmental taxes and subsidy removal, will increase the relevant prices. However, appropriate mitigation and compensatory measures can deal with these features and minimise potential drawbacks.

[14] See in particular Chapter 5: Making Natural Wealth Work for the Poor.

[15] See for example the EFR instruments of the Budget Bill 2009: increase in transport fuel taxes, a motor vehicle excise tax reform to tax carbon emissions, plastic bag levy, incentives for cleaner production – energy efficiency: http://www.finance.gov.za/documents/national%20budget/2009/default.aspx

3. PROJECT IMPLEMENTATION

3.1 Methodology: Project plan and selection criteria

The ToR clarify that one of the tasks of the project is defining criteria for the identification of five ACP countries that should be studied in more detail.

Following the criteria selection, the project is implemented in three steps. The selection of the criteria is based on EC development policy aspects, namely whether the country receives EC budget – general or sectoral - support and the other key determinant is related to governance. In addition, it was agreed that other criteria, which are discussed below, are also playing a role in the selection process.

The actual project implementation plan is divided into several steps aiming to select the five final ACP countries:

1. The first step is a desk study carried out by the team of experts to identify up to 25 countries (short list). The selection process is based on a rather quick analysis (because of budget and time constraints) of all 79 ACP countries identifying the most promising 25.

2. Based on the initial screening, 25 countries were selected by the EC project steering group and experts to be assessed in the first round. This joint selection was carried out at the second project meeting which took place on May 5, 2009. The following 25 ACP countries were selected:
   - Africa (19 countries): Benin, Botswana, Burkina Faso, Cameroon, Cape Verde, Congo (Brazzaville), Djibouti, Ethiopia, Gabon, Ghana, Malawi, Mauritius, Mozambique, Namibia, Senegal, South Africa, Tanzania, Uganda and Zambia
   - Caribbean (4 countries): Barbados, Jamaica, Suriname and Trinidad and Tobago
   - Pacific (2 countries): East Timor, Vanuatu

3. The most promising five ACP countries were selected in the second round. This process was based on interviews either verbally during a phone or face-to-face interview firstly with the EC desk officers (DG Development) of the 25 ACP countries, followed by phone interviews with EC delegations in these countries. Based on information and comments received from the EC desk officers (DG Development) some of the 25 countries were eliminated from the list. This may be the case when the relevant EC desk officer recommended not going further with the country. The outcome of this second round is the selection of the five countries for development of case studies, of which three where the experts will conduct in-country assessments. The final selection of these three countries will be made by the EC, DG Development, jointly with the project team[16].

4. The third step is to carry out the mission to the three selected countries conducting the assessment and to make a more detailed desk study with regard to the two remaining countries.

The country selection criteria are briefly discussed in the following chapters.

[16] The final selection of the three countries where the experts will travel to conducting in-country assessment is somehow limited as the ToR, if not amended; spell out that one country must belong to Eastern or Southern Africa, one county to West or Central Africa and one country to the Caribbean or the Pacific area.

3.2 Key criteria: budget support (general versus sector) and governance

3.2.1 EC Budget Support

The link between EFR and budget support measures granted by the EC is straightforward:

> General Budget Support (GBS) contributes to national development policies/strategies (such as Poverty Reduction Strategies). Such policies/strategies may have significant environmental consequences and the sustainable achievement of their development objectives will often depend on environmental conditions or resources. It is thus important, at the time of preparing the CSP, to consider the extent to which the national policy/strategy to be supported addresses key environmental and sustainability concerns (EC, 2007, p.58).

Furthermore, this report states EFR as such a policy linking national policies/strategies and environmental policies[17]. An interesting aspect referred to above is the relation between the EFR process and the features of broadening the tax base also in the context of reforming trade taxes. This aspect is rarely discussed in the literature but picked up in (EC, 2007): '*Using EFR principles while developing new budgetary resources in case export taxes and import duties should be reduced* (EC, 2007, p.89)'.

It may be argued that the EC moved ahead during the recent years by actively following the debate on EFR and thereby implementing the concept EFR into development co-operation. This can be seen when comparing older publication with the most recent ones. In earlier publication reviewing the linkage between environment and economic/development cooperation reference has been made to market-based approaches but not to EFR as a whole policy package (EC, 2000).

However, the ETR concept as a revenue neutral tax shifting programme was promoted by the EC for some time. For example, the 2003 Energy Taxation Directive[18] states that '… *Member States might decide not to increase the overall tax burden if they consider that the implementation of such a principle of tax neutrality could contribute to the restructuring and modernisation of their tax systems by encouraging behaviour conducive to greater protection of the environment and labour use'.*

3.2.2 Governance

As mentioned above governance is also a key aspect in EC development policy in particular in the context of the 10th European Development Fund (EDF) 2008-2013. Governance is a rather complex term as is includes different dimensions, such as policy, economy, environment, social aspects /society. Furthermore democratic governance must be described as crucial for development policy[19]. Financial support measures for improving governance are provided by the EC under the 10th EDF and largely focusing on Africa. A particularly important feature of good governance is a reliable and stable political system. This turned out to be of crucial importance when making the selections, as only those countries could reasonably be chosen which also would allow for some likelihood that an EFR would be implemented.

3.3 Other criteria

3.1.1 Political stability – absence of civil war/unrest

This criterion presents the current political situation in the countries as it can be expected that countries with a weak government has no intention to initiate an EFR process. This is a rather general assumption without

[17] *The degree to which reforms reduce environmentally damaging subventions and address market failures regarding environmental externalities, notably through EFR (Environmental Fiscal Reforms)* (EC, 2007, p.58).

[18] Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework fort he taxation of energy products and electricity, Official Journal of the European Union L283/51, 31.10.2003

[19] See for a detailed discussion on the approach of the EC towards governance in development policies: EC, 2009b

proper analysis during project implementation. However, past experience shows that this assumption cannot be rejected. The basis for assessing the criterion ‘political stability’ is information compiled by the project team and in particular EC officials including the country desk officers of DG DEV who have a complete and up-to-date knowledge of the current state of the political situation within the country.

3.1.2 Availability of local experience or data/information on EFR, tax reform, use of market based instruments

It is simpler to initiate the process of implementing a comprehensive EFR or only EFR instruments if there is already some knowledge and experience in the country available. Experiences in many countries are revealing that reforming of already existing economic instruments is a preferred option as the prevailing institutional and legal framework can either be used or must be slightly revised. This is definitely easier and faster than to build up a complete institution. Because of time and budget constraints a comprehensive analysis of all 25 pre-selected countries cannot be undertaken. This approach would have been the preferred option.

3.1.3 Level of development – high, low income country; GDP

The indicator GDP per capita (measured in PPP USD) is used as a proxy for the level of development. This indicator is presented in Annex 7.4 below revealing the GDP per capita as of 2007. Least Developed Countries (LDC) are marked separately in the table as well as the 25 pre-selected ACP countries (stage 1 of project plan).

3.1.4 Existence of natural resources and their significance of the economy

Natural resources are important for developing countries because of several reasons as they can be the source of state income (i.e. taxation of natural resource extraction – minerals, fishery, timber, etc.) and also the source of livelihoods for the poor. As mentioned above, the application of EFR instruments can prove to be very helpful to establish an appropriate policy for natural resource extraction including weighing up between the different forms of usage. In addition, having the proper policies in place is also important for managing the natural resource base sustainably.

3.1.5 Interest of EFR in the relevant country – this criterion covers the point ‘capacity of government carrying out fiscal reform’

We are heavily relying on the knowledge and experiences of the EC desk officers and EC delegation located in the pre-selected countries as they should assess best whether there is a good potential for successful EFR.

4. RESULTS OF INTERVIEWS AND DISCUSSIONS: SELECTED COUNTRIES

The interviews and discussions, although informal, were guided by the questions set out in the questionnaire (Annex) prepared by the project team in consultation with the EC steering team. The interviews and discussions proved to be a very useful technique to gather views on the countries, perceptions and offered a good means for discussions.

Most interviewees welcomed the idea of EFR in developing countries in general, although some may have initially had some reservations (depending on country), they all thought it was in theory worthwhile to explore. Governance, perception of the receiving country, ‘ownership’ and partnership were some issues considered important for EFR. EFR could be promoted as an opportunity to existing address environmental problems and increase budgetary efficiency and also raise revenues which could be targeted at social improvement policies such as poverty eradication and health, it was suggested. This could also result in increasing environmental standards.

A key finding from the interviews and discussions was the identification of two possible 'types' of countries for EFR. It was noted that EFR could be suitable for a more developed, country or for one with high environmental and social problems therefore with a potential to benefit from EFR both from environmental protection perspective and from a revenue generating perspective.

Country selection – Proposed countries

Below is a very short overview of the perception of EFR in the 25 countries from the findings. A detailed response to the questionnaire can be found in the Annex:

AFRICA

Country	Suitability for EFR Project	Reason
Benin	N/A	No response
Botswana	Neutral	No response from EC desk
Cameroon	No	No budget support
Cape Verde	Neutral	very harsh natural conditions, open-minded administration; idea of EFR might be a possible solution
Congo (Brazzaville)	No	No budget support
Djibouti	No	Has no Budget Support. Has only 2/3 donors, with EC being one of them. Lack of capacities, statistics, little macroeconomic information and dialogue; deficient in accountability. Does not meet IMF/EC-criteria.
Ethiopia and Eritrea	No	Limitations on structural side. Ethiopia has some interesting environmental programmes in afforestation, soil conservation no structural measures with tax implications
Gabon	No	No budget support, though it has taken some initiatives in forestry
Ghana	N/A	No response
Malawi	Neutral	Recently introduced licenses for the sale of forest produce; including charcoal, fuel wood and timber under an on going EU funded Improved Forest Management for Sustainable Livelihoods Programme. Ministry of Nat. Res. Enry and Env has proposed to the cabinet to introduce a pollution tax to motorists
Mauritius	Yes	Strong capacity; ownership and partnership. Problem of overfishing. EU-Mauritius/Seychelles-fishery agreement which was not prolonged as stocks went down; exporter of sugar to EU
Mozambique	Yes	Environmental fiscal issues have been discussed by government
Namibia	N/A	No response
Senegal	Potentially yes	One of the pilot countries for initiative on climate change
South Africa	Yes	EC collaboration with South Africa does not cover environment – but on climate change negotiations emission reduction and linking this with funding for mitigation and adaptation. Big emitter 90% coal

		powered; big economy; EC cooperation only 1% of budget, 99% comes from country itself; middle-income country; good administration capacity; have own Environment Policy Framework, ownership and awareness of environmental issues; has resources to fund its own EFR
Tanzania	Potentially yes	Has 14 Budget Support donors including EC, ADB, UK, NL, Japan, Norway, DK…. Some in government perception is that majority of their policy is determined by donors as a result; one of Performance Assistant Framework - monitors performance targets of nat resources policy – one aim is to improve revenue collection from natural resources e.g. fisheries, forestry, gas and oil…other measures to increase domestic revenues Reduction of VAT from 20% to 18%, red income tax 30%-25%. Already many studies carried out in country by donors and maybe no problem for one on EFR.
Uganda	Yes	Has sectoral support in rural development area – only two exist, very rare. Involved in measures to tackle deforestation; initial discussion on measures e.g. trade and support and with budget implications e.g. plastic bags
Zambia	Yes	Main issue is mining taxes; also have income taxes; weak fiscal regime for mining sector. In 2008 fiscal regime changes, very high increase in mining taxes; 2009 fiscal changes reversed (crush of Cu prices and global economic situation), need to have stable regime. Tourism and small-scale gemstone mining other sector. Very coordinated and harmonised country in terms of donors

CARIBBEAN

Country	Suitability for EFR Project	Reason
Barbados	Yes	HDI ranking 39; stable developed country; high population density, water is an issue; sugar is big industry but EC Sugar reforms potential impact on prices- questions on what to do with sugar plantations – diversify (e.g. ethanol) or abandon? Tourism is other; only sectoral support. Terrible problems with traffic congestions/jam in capital – could focus on improving public transport e.g. using fiscal measures to promote and improve infrastructure
Jamaica	Potentially yes	Climate change; current debt very high, 50%-60% of government expenditure go towards debt repayments; government in talks with IMF for possible intervention. Have Budget support, policy and relationship with EC very strong, efforts to reform and expand tax ; donors very limited; small economy (middle income with lots of poverty), highly hit by economic crisis; large oil importer; EFR interesting to explore, not sure if can be priority – but need interest and commitment from government.
Surinam	No	No dialogue, delegation of Guyana is taking care of Suriname, too. No infrastructure programme in spite of not having a sector policy it is supported by DAB and Dutch development agency. Capital is spent on two roads.
Trinidad and Tobago	Potentially yes	Economy is oil/mineral based; high abundance of

		this commodity, tendency is to impose very low taxes on energy, oil. Oil producing country, highly ranked in the region and world, but 70% of population lives below poverty line (2005 Poverty survey) – missing opportunity to improve social conditions from revenues of oil as taxes too low; middle-income county; EC good contacts with government, politically stable.

PACIFIC

Country	**Suitability for EFR Project**	**Reason**
East Timor	No	Have discovered oil reserves, potential for revenue generation; post-conflict, still fragile; does not have, but could need Budget Support
Vanuatu	Potentially yes	Dependent on imported fuel; huge household cots goes to energy (household energy comparatively more expensive than in EU); government rather open and transparent; only country in Pacific with Budget Support; fisheries licences may be good entry point

Notes:

Yes – where EC Desk Officer and/or EC Delegation said 'Yes' when asked whether they though the country would be suitable for an EFR project (note: most did insist on certain conditionally, mainly commitment, ownership, acceptance by local government of the idea)

No – where EC Desk Officer and/or EC Delegation said 'No' when asked whether they though the country would be suitable for an EFR project (note: most did insist on certain conditionally, mainly commitment, ownership, acceptance by local government of the idea)

Potentially yes - where EC Desk Officer and/or EC Delegation said: 'I think so' 'potentially yes' 'could be good idea for country' when asked whether they though the country would be suitable for an EFR project (note: most did insist on certain conditionally, mainly commitment, ownership, acceptance by local government of the idea).

Neutral - response from EC Desk Officer and/or EC Delegation was none of the above or where not clear if positive or negative or maybe when asked whether they though the country would be suitable for an EFR project (note: most did insist on certain conditionally, mainly commitment, ownership, acceptance by local government of the idea).

N/A – no response from EC Desk and EC Delegation.

As can be seen from the above findings, the following countries are proposed as the five most suitable countries for the next stage of the study.

	Africa	**Caribbean**	**Pacific**
Suitability for EFR Project			
Yes	Mauritius, Mozambique, South Africa, Uganda, Zambia	Barbados	-
Potentially yes	Senegal, Tanzania	Jamaica, Trinidad and Tobago	Vanuatu
No	Cameroun, Congo (Brazzaville), Ethiopia and Eritrea, Gabon	Surinam	-

Neutral	Botswana, Cape Verde, Malawi	-	-
N/A	Benin, Ghana, Namibia.	-	-

5. DISCUSSION OF FINDINGS FROM INTERVIEWS AND DISCUSSION WITH EC DESK OFFICERS AND DELEGATION

Based on the study findings, all the countries marked as 'yes' or 'potentially yes' could qualify for further analysis. Their further qualification could depend on other factors such as the willingness and support of receiving country and EC Delegation in the country as well as other factors such as capacity within country etc. Another important question is whether only well developed countries would be looked at or the selected countries would also be composed of countries that have difficulties but with a potential for an EFR being a relevant part of the 'solutions', despite low level of development etc.

Some countries such as South Africa have very well established administration, with rather strong economies and are involved in numerous collaborations with the EC. Others such as Tanzania, have numerous donors and a lot of donor-funded activities taking place in the country already – so it may be a potentially good choice for EFR project – but would this be seen as a priority? Or an overburden?

On the other hand countries such as Jamaica with very harsh biophysical conditions and poverty prevalence may have a need for EFR; EC already has good relations with administration; very few donors in country. Willingness of country, ownership and other factors may be the major determinants here despite the need. Zambia is an example of a country rich with copper, with smaller gemstone mining. Copper mining and its impacts on the environment, society and economy may offer a good entry point for an EFR project. But current global economic conditions and changes in copper prices and national elections in 2010, need to be monitored further. Barbados, for example, is another country, which despite being well developed suffers from heavy traffic congestions in the city and poorly developed public transport system. T the same time, the main industry, sugar, may be undergoing changes, both issues offering potential entry points for an EFR project. In other countries, such as Senegal, there is an interest towards promoting renewable energy sources, could this be something with some potential to link to improving the energy sector?

From the interviews and discussions with EC Desk and Delegation officials, nine countries stand are proposed as possible for EFR project from which the five countries will be selected and three case study countries chosen.

The following countries are proposed (from which 5 and then 3 will be selected):

- Mauritius
- Barbados
- Jamaica
- Mozambique
- Senegal
- South Africa
- Uganda
- Zambia

- Tanzania
- Trinidad and Tobago
- Vanuatu

6. CONCLUSION

The terms of references (ToR) envisage that based on the above analysis, the project team will then propose five ACP countries for the development of case studies, of which three where they will conduct in-country assessments. The final selection of these three countries will be made by the European Commission, DG Development, jointly with the project team. The aim of these case studies is to determine the options, progress and prospects of implementing an EFR. Given that the final choice also depends on the geographical distribution of the countries, which the EC may wish to have some preferences, in the following 9 countries are suggested to be considered for the final selection of 5 countries for case studies and 3 countries for missions.

	Africa	**Caribbean**	**Pacific**
Yes	Mauritius, Mozambique, South Africa, Uganda, Zambia	**Barbados**	-
Potentially yes	~~Senegal, Tanzania*~~	Jamaica, Trinidad and Tobago	**Vanuatu**

* These countries, though potentially interesting, are not considered as countries to be chosen as there are more countries in Africa considered clearly positive which makes those superfluous.

The countries in **bold** are the ones for the Caribbean and Pacific which are proposed for missions and case studies. For Africa, there is no clear-cut selection possible, so that the EC should comment on it.

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- Lueth E., M. Ruiz-Arranz, D. Coady and D. Newhouse, 2006, The Fiscal and Distributional Impacts of Fuel Subsidy Reform and Alternative Mitigating Measures, in: International Monetary Fund (IMF) Country Report No. 06/447: Sri Lanka: Selected Issues, Washington, D.C., 2006
- OECD, 2005, Environmental Fiscal Reform for Poverty Reduction, DAC Guidelines and Reference Series, DAC Guidelines and Reference Series, Paris, France, 2005
- OECD, 2007, Subsidy Reform and Sustainable Development Political Economy Aspects, Paris, France
- OECD, 2008a, Latin American Economic Outlook 2009, Paris, France, 2008
- OECD, 2008b, Natural Resources and Pro-Poor Growth The Economics and Politics, DAC Guidelines and Reference Series, Paris, France, 2008.
- UNEP, 2003, Energy Subsidies: Lessons Learned in Assessing their Impact and Designing Policy Reforms, Geneva, Switzerland.

- UNEP, 2004, The Use of Economic Instruments in Environmental Policy: Opportunities and Challenges, Geneva, Switzerland.
- World Bank, Environmental Fiscal Reform What Should be Done and How to Achieve it, Washington D.C., USA, 2005

ANNEXES

ANNEX 1:

An overview of developing countries currently undertaken activities in the field of EFR:

A non-exhaustive overview – activities are often implemented by national institutions and supported by international donors (ACP):

- South Africa (National Treasury of South Africa – initial project was funded by DfID; current)
- Mozambique (World Bank – revenue generating capacity of EIs on natural resource extraction)

Other developing countries which are not belonging to the ACP group

- China (GTZ – 'comprehensive' EFR but revenue-neutral; current)
- Kyrgyzstan (UNDP project on capacity building in the field of EFR; current)
- Indonesia (DANIDA project on market-based instruments; current, and in the past USAID and Asian Development Bank, possibly also by GTZ)
- Sri Lanka (UNEP – overview of existing instruments and reform proposals; completed)
- Vietnam (EC Technical Assistance Project until 3/2009, GTZ took over and advises the MoF on the implementation of an EFR by 2011 as decided by the Prime Minister)

ANNEX 2:

A non exhaustive list of EFR reports

This list mainly covers reports published by international organisations. Academic and research reports are not included.

Environmental Fiscal Reform for Poverty Reduction, DAC Guidelines and Reference Series, OECD, Paris, France, 2005

Environmental Fiscal Reform What Should be Done and How to Achieve it, World Bank, Washington D.C., USA, 2005

Market based Instruments in Environmental Policy in Europe, European Environment Agency (EEA), EEA Technical Report, No8/2005, Copenhagen, Denmark, 2005.

plus earlier reports published by the EEA regarding this theme (see website www.eea.europa.eu)

Environmental Fiscal Reform: the results so far

An overview of experiences with Environmental Fiscal Reform and revenue systems in forestry and fisheries sectors

Rik Beukers

Internship Ministry of Foreign Affairs and Development Cooperation

Department Environment and Water

Wageningen University and Research Centre

< no date given >

Environmental Fiscal Reform in Developing, Emerging and Transition Economies:

Progress & Prospects

Documentation of the 2007 Special Workshop hosted by the Federal Ministry for Economic Cooperation and Development (BMZ) and the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH; www.gtz.de/rioplus at the Global Environmental Tax Conference organised by Green Budget Germany (GBG, http://www.worldecotax.org/).

Environmental Fiscal Reform for Sustainable Development and Poverty Reduction

Workshop Proceedings and Country Case Studies

Eschborn /Bonn 2004

Deutsche Gesellschaft für

Technische Zusammenarbeit (GTZ) GmbH; http://www.gtz.de/rioplus

Reforming Forest Fiscal Systems to Promote Poverty Reduction, and Sustainable Forest Management

Proceedings of the International Workshop on October 19–21, 2003

World Bank, Washington, D.C.; http://www.profor.info

Generating Public Sector Resources to Finance Sustainable Development Revenue and Incentive Effects

Stefano Pagiola, Hiba Ahmed, Katharine Bolt, Kirk Hamilton, Muthukumara Mani, Roberto Martin-Hurtado, Priya Shyamsundar, Patricia Silva

Environment Department, The World Bank

WTP 538 – December 2002

http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2003/02/15/000094946_03020504033653/Rendered/PDF/multi0page.pdf

Economic Instruments for Environmental Management and Sustainable Development

Theodore Panayotou

International Environment Program Harvard Institute for International Development Harvard University, December, 1994

Prepared for the United Nations Environment Programme's Consultative Expert Group Environmental Economics Series Paper No. 16

Reports published by

United Nations Environment Programme (UNEP)

Division of Technology, Industry, and Economics

Economics and Trade Branch

http://www.unep.ch/etb/publications/index.php

- **The Economics of Environmental Degradation. Tragedy for the Commons?** (1996)
- **Instruments of Change: Motivating and Financing Sustainable Development** (1998)
- **Environmental Cost Internalisation: Case Studies from the Czech Republic, Egypt and South Africa** (1998)
- **Economic Instruments for Environmental Management: A worldwide compendium of Case Studies** (2000)
- **Energy Subsidies: Lessons Learned in Assessing their Impact and Designing Policy Reforms** (2003)
- **The Use of Economic Instruments in Environmental Policy: Opportunities and Challenges** (2004)
- **Economic Instruments in Biodiversity-related Multilateral Environmental Agreements** (2004)
- **Selection, Design, and Implementation of Economic Instruments in the Solid Waste Management Sector in Kenya: the Case of Plastic Bags** (2005)
- **Sustainable Use of Natural Resources in the Context of Trade Liberalization and Export Growth in Indonesia: A Study on the Use of Economic Instruments in the Pulp and Paper Industry** (2005)

Conference proceedings of the International Environmental Taxation Conference by Oxford University Press and Richmond Law & Tax: Title of Series: ***Critical Issues in Environmental Taxation***, annually published starting in 2003

Handbook: Economic Instruments for Environmental Management of Malaysia

Economic Planning Unit, Prime Minister's Department Malaysia, www.epu.jpm.my and DANIDA, Ministry of Foreign Affairs, Denmark, www.um.dk; 2004

Experience with Market-Based Environmental Policy Instruments

Robert N. Stavins

November 2001 • Discussion Paper 01–58

Resources for the Future, http://www.rff.org

Making Budgets Green Leading Practices in Taxation and Subsidy Reform

International Institute for Sustainable Development (IISD), Canada, 1994

The Use of Economic Incentives in Developing Countries: Lessons from International Experience with Industrial Air Pollution

Allen Blackman and Winston Harrington, Resources for the Future, Discussion Paper 99-39,

May 1999

The Magnitude and Distribution of Fuel Subsidies: Evidence from Bolivia, Ghana, Jordan, Mali, and Sri Lanka

Coady D., M. El-Said, R. Gillingham, K. Kpodar, P. Medas and D. Newhouse

International Monetary Fund (IMF) Fiscal Affairs Department, Working Paper WP/06/247, Washington, D.C., 2006

The Fiscal and Distributional Impacts of Fuel Subsidy Reform and Alternative Mitigating Measures

Lueth E., M. Ruiz-Arranz, D. Coady and D. Newhouse

In: International Monetary Fund (IMF) Country Report No. 06/447: Sri Lanka: Selected Issues, Washington, D.C., 2006

Taxation and tax reforms in developing countries: Illustrations from sub-Saharan Africa

Odd-Helge Fjeldstad, Lise Rakner, Chr. Michelsen

Institute Development Studies and Human Rights, Norway

R 2003: 6, www.cmi.no/public/public.htm

A Framework for Considering Market-Based Instruments to Support Environmental Fiscal Reform in South Africa – draft policy paper

National Treasury, Tax Policy Chief Directorate, South Africa, April 2006

http://www.treasury.gov.za/public%20comments/Draft%20Environmental%20Fiscal%20Reform%20Policy%20Paper%206%20April%202006.pdf

Development of Market Based Instrument for Environmental Management in Sri Lanka Ministry of Environment and Natural Resources, Sri Lanka, May 2008.

Market-Based Instruments for Environmental Policymaking in Latin America and the Caribbean - Lessons from Eleven Countries

Richard M. Huber, Jack Ruitenbeck,Ronaldo Seroa da Motta

World Bank Discussion Paper No. 381

World Bank, Washington, 1998

Economic Instruments for Solid Waste Management: Global Review and Applications for Latin America and the Caribbean

Inter-American Development Bank, December 2003, http://www.iadb.org/int/drp

Economic Instruments for Water Management: Experiences from Europe and Implications for Latin America and the Caribbean

Inter-American Development Bank, November 2003, http://www.iadb.org/int/drp

Strategy for the Use of Market-Based Instruments in Indonesia's Environmental Management

Asian Development Bank, Environment Division, Office of Environment and Social Development, December 1997

Greening the Budget case studies

The Energy and Resources Institute 2004

India

Greening Development Planning: A Review of Country Case Studies for Making the Economic Case for Improved Management of Environment and Natural Resources

Drakenberg, O. *et al.* (2009), *OECD Environment, Working Papers*, No. 5, OECD publishing,

http://www.oecd.org/dataoecd/1/23/42069446.pdf (Mozambique case study)

Choosing Environmental Policy Tools Theoretical Cautions and Practical Considerations

Clifford S. Russell and Philip T. Powell

Inter American Development Bank

Washington, D.C.

June 1996—No. ENV-102

International Experiences with Economic Incentives for Protecting the Environment

National Center for Environmental Economics, US Environment Protection Agency, Office of Policy, Economics, and Innovation, EPA-236-R-04-001, Washington, D.C., November 2004 – revision 1, January 2005

ANNEX 3:

Questionnaire and Example / experience with EFR in developing countries

Background note

Options for Promoting Environmental Fiscal Reform (EFR) in EC Development Cooperation

(within an equally named project funded by the European Commission, DG Development)

Implemented by Soges and its project team represented by

Kai Schlegelmilch; Pendo Maro; and Stefan Speck

May 2009

The purpose of this note is to provide you with some background information on the current status of the implementation of the project. The reason for informing you about the progress status is based on the fact that we are planning to interview you either verbally during a phone or face-to-face interview as we would like to use your experience and expertise in the next step of project implementation.

The overall project aim is to provide an overview of which developing countries are undertaking Environmental Fiscal Reform (EFR)-actions. Furthermore, the study should select the best five candidate countries for possible support, and for those countries provide a starting point for informed decisions about what reforms are most relevant, and how the EFR process can be effectively designed and implemented by means of case studies.

In the first round 25 ACP countries have been pre-selected for further analysis[20]:

- Africa (19 countries): Benin, Botswana, Burkina Faso, Cameroon, Cape Verde, Congo (Brazzaville), Djibouti, Ethiopia, Gabon, Ghana, Malawi, Mauritius, Mozambique, Namibia, Senegal, South Africa, Tanzania, Uganda and Zambia
- Caribbean (4 countries): Barbados, Jamaica, Suriname and Trinidad and Tobago
- Pacific (2 countries): East Timor, Vanuatu

This selection is based on a pre-screening list produced by the experts and the knowledge, expertise and experience of the EC officials.

During the next step the five candidate countries should be identified which will then be analysed in detail. At this moment of project implementation we would like to collect more information on the 25 ACP countries and thereby hoping on your support.

The terms of references (ToR) envisage that based on this analysis, the project team will then propose five ACP countries for the development of case studies, of which three where they will conduct in-country assessments. The final selection of these three countries will be made by the European Commission, DG Development, jointly with the project team. The aim of these case studies is to determine the options, progress and prospects of implementing an EFR.

[20] The selection was done by the three experts and EC officials at the meeting – EC officials: Simon le Grand, Walter Kennes, Christian Peters and Catherine Paul.

The criteria used for the selection of the countries are on the one hand whether the country receives EC budget support and governance support (governance programme) and on the other hand the following criteria:

- Political stability - absence of civil war/unrest;
- Availability of local experience or data/information on EFR, tax reform, use of market based instruments;
- Level of development – high, low income country and GDP;
- Availability of natural resources and the economic significance of natural resources;
- Interest of EFR in the relevant country / capacity of the government carrying out fiscal reform

Below you find some questions which we would like to address in the interview with you. They should be read in connection with the below note on "Options for Promoting Environmental Fiscal Reform (EFR) in EC Developing Cooperation" discussing the concept of environmental fiscal reform and providing some examples of EFR in developing countries.

a. Have you ever heard about the EFR concept in the context of either the developed or developing countries, in particular related to the country you are dealing with?
b. Are economic instruments such as the ones described in the below examples in place in 'your' country? If not, is there a potential for having one or some of them?
c. Are you aware of or have you been involved in activities in one of the ACP countries, in particular in the one with which you are dealing directly, addressing EFR? Do you know the outcomes of such activities in terms of success, failure, opportunity, constraint and barriers regarding the implementation? Where can we get some documentation of them?
d. Are there any activities that you are aware of or have been involved with initiated by the receiving country or by donors (e.g. EC, ADB, IADB, World Bank, etc)?
e. What is your general opinion of promoting EFR or related activities in developing countries?
f. In this context: Do you have potentially useful contacts and coordinates of persons in the country you are dealing with (e.g. Ministry of Finance, Ministry of Planning, Ministry of Environment, research institutions / academia, NGO, etc.?

This list of questions serves as an indication of issues we would like to discuss with you!

Options for Promoting Environmental Fiscal Reform (EFR) in EC Developing Cooperation

(within an equally named Project funded by the European Commission, DG Development)

Implemented by Soges and its project team represented by Kai Schlegelmilch; Pendo Maro; and Stefan Speck

This note is intended to provide a short introduction of the project. It discusses the principle of EFR as well as it provides some examples of EFRs implemented in developing countries for illustration purposes.

1. Definition of EFR in the context of developing countries

A definition of the term environmental fiscal reform (EFR) does not exist in the literature but there is a general agreement that it refers to *a range of taxation or pricing instruments that can raise revenue, while simultaneously furthering environmental goals. In addition, it also comprises the reduction of environmentally harmful subsidies.*

What is important in this context is to consider the potential of an EFR as it can play an important role in helping developing countries to mobilise revenue for governments, to improve environmental management practices and conserve resources and to reduce poverty. However, the more widespread application of EFR is regularly constrained by political and institutional factors.

When discussing EFR, distinction should be made between two components: The first components are the instruments which can be used to address country- and sector-specific environmental and resource issues and mobilising revenues simultaneously. The instruments to be implemented as part of an EFR can be environmental taxes but also user charges (for instance water tariffs) and the reform of subsidies (for instance reforming and reducing energy subsidies). The second component of an EFR is the use of the generated revenues: they can feed into the general budget or be dedicated to a specific programme or purposes, for instance investing in schools, healthcare, infrastructure, improved management of the environment and natural resources, or to pay for social transfers that might be needed to alleviate hardship associated with the original tax increase. For industrialised countries, much of the literature and practical experience suggest reduction in particularly distortive taxes, such as on labour, as a preferable way of recycling revenue. However, this might not be directly transferable to a developing countries context..

2. Objectives of the project

The aim of the interviews is to support the implementation of a project which is commissioned and managed by the EuropeAid Cooperation Office on behalf of and in close cooperation with the European Commission's Directorate General for Development, Units B/2 "Environment and Rural Development". The overall objectives of the project as discussed in the Terms of Reference (ToR) are:

- The purpose of the assignment is to provide an overview of which developing countries are undertaking EFR-actions (possibly with donor support), based on information from different sources (World Bank, OECD, GTZ, others).
- Furthermore, the study should establish criteria to identify where there is a good potential for successful EFR support by the EC within the context of the current generation of CSPs and RSPs (2007-2013). The study should select the best 5 candidate countries for such possible support, and for those countries provide a starting point for informed decisions about what reforms are most relevant, and how the EFR process can be effectively designed and implemented by means of case studies.

It is envisaged that based on the analysis of interviews and other data, the project team will select three ACP (Africa Caribbean Pacific) countries where they will conduct in-country assessments. The aim of these missions is to undertake a case study regarding the options, progress and prospects of implementing an EFR in each of the selected ACP country.

3. Taxation or price-based instruments for environmental policy purposes in developing countries – some examples

1. EFR instruments to desulphurise electricity generation in China

In China, electricity pricing measures have been implemented to reduce SO2 pollution. Since the end of 2004, the preferential grid price of desulphurized electricity has been Renminbi (RMB) 0.015 per kwh higher than non-desulphurized electricity. In addition, in 2006 the end-user price of desulphurized power was raised by an average of RMB 0.025 per kwh, to spread the cost of desulphurization between plants, the grid and end-users. Importantly, monitoring systems are also in place to ensure that these increases are enforced.

At the end of 2004, the total desulphurization capacity of China's power plants was 30 million kilowatts, incentivised by the preferential desulphurized electricity price. Desulphurization currently costs RMB 2.475 billion (US$ 344 million) annually, but the benefits are many. As a result, SO2 emissions are dropping by 1.8 million tons per year – already 70% of the target set out in the 11th Five Year Plan. These reductions have cut the cost of environmental damage by RMB 36 billion (US$ 5 billion). Savings have also been made for the power industry due to lower pollution levy payments, which have been reduced by RMB 1.08 billion (US$ 150 million), the current rate being RMB 0.6 per kg of SO2. In addition, desulphurization facilities worth RMB 8-13.4 billion (US$ 1-1.9 billion) have been built at a cost of RMB 300- 500 per kW, or US$ 42-70 per kW.

Source: GTZ: EFR Conference proceedings, 2008, p. 28, http://www.worldecotax.org/downloads/info/documentation_gtz-Workshop.pdf

2. A well thought out EFR measure – the waste water levy in South Africa

Water is scarce in South Africa. In an attempt to improve the quality of the country's water resources, the South African Government, led by the Department of Water Affairs and Forestry, has proposed a levy on water effluent as part of its evolving water pricing strategy. It is envisaged that the Waste Water Discharge Charge System will apply to all registered point source emissions into watercourses. The proposed system has both a cost recovery and revenue raising component and a deterrent component (a tax/levy on effluent). The intention is to heavily penalise effluent loads over a certain concentration. Tax rates will be progressive, taxing the largest emitters highly to create strong incentives to reduce effluent loads. Some of the revenues will probably be used for remediation purposes. For implementation of the proposal to be successful, it is essential that the system is kept manageable particularly with respect to accurate monitoring of effluent loads and the granting of sufficient independence of regulating bodies. It must also be effectively integrated into the existing system of licensing and water use authorisations. Even if these factors are taken into account, it will be difficult to capture all forms of water pollution, particularly from diffuse sources.

Source: South African Treasury's draft policy paper on EFR: A Framework for Considering Market-Based Instruments to Support Environmental Fiscal Reform in South Africa, published in April 2006. Available for download at: http://www.treasury.gov.za.

3. Coalition-building to phase out unleaded petrol in Thailand

In 1991 the Government of Thailand – pressed by concerns about the seriously harmful effects of lead pollution on the population and the environment – embarked on an ambitious program to phase out the use of leaded gasoline. This was a complex task, impacting on many sectors. However, the Thai policymakers managed to surmount the obstacles encountered and successfully completed the process in four and a half years, one year ahead of schedule. A crucial success factor was reliance on fiscal incentives to favour unleaded gasoline. To encourage the switch to unleaded, the retail (pump) price was set at B 0.3 (USD 0.012) per litre less than that of leaded gasoline. This policy was introduced with a collaborative approach involving key stakeholders, such as government agencies, representatives of oil companies, and automobile manufacturers. Success was crucially dependent also on governmental institutions taking vigorous leadership and managing all steps of the process, including setting target dates for implementing key actions, and continual monitoring and follow-up evaluation.

Source: http://www.oecd.org/dataoecd/14/25/34996292.pdf.

4. Successful public awareness campaigns in Indonesia

Fuel subsidies are highly politicised in Indonesia. Indeed, in 1998, riots in protest at fuel price rises ended in the overthrow of President Suharto. Bearing this in mind, the Indonesian government went to considerable lengths to both publicise and implement a targeted cash transfer program to compensate the poor for fuel price increases in 2005. The efforts made by the Indonesian government probably led to the absence of major public protest against the increasing fuel prices at this time. The cash transfer programme proposed by the government was announced in newspapers, brochures, pamphlets and on TV. However, drawing up and communicating compensatory measures is an ongoing process. In 2008, fuel price rise riots once again threatened the stability of the country.

Source: Environmental Fiscal Reform: The Results so Far: An Overview of Experiences with Environmental Fiscal Reform and revenue systems in forestry and fisheries sectors, Wageningen University, p.7 and http://www.economicinstruments.com.

5. Mobilising public support for electricity price rises in Ghana

When the Ministry of Mines and Energy in Ghana attempted to raise energy prices by 300 per cent, in May 1997, it was met with uproar. The president personally intervened to roll back the increase. As an alternative, parliament was summoned to set up a Public Utilities Regulatory Commission (PURC) in late 1997, which a year later was able to pass the same price increase with much less popular dissent. PURC staff partly attributes this to a concerted public consultation — including workshops, public forums and a media campaign — prior to raising tariffs. The key aim was to persuade consumers that the revenues generated by the price rise would be used to increase access to the poor.

Source: World Bank: Environmental Fiscal Reform. What Should Be Done and How to Achieve It, 2005, p.58
http://siteresources.worldbank.org/INTRANETENVIRONMENT/Publications/20712869/EnvFiscalReform.pdf.

6. Poor revenue collection in Tanzania

In the forestry sector in Tanzania, US$ 58 million are lost annually due to the under-collection of natural forest product royalties in the districts, and a recent study revealed that China imported ten times more timber products from Tanzania than appeared on the country's export records. In fisheries approximately 30% accruing to local government are collected. Awareness of this problem was highlighted by the 2004 Public Environmental Expenditure Review, which revealed: the potential of environmental resources to contribute to the public purse; significant underpricing and extremely poor revenue collection rates in fisheries and wildlife protection schemes; and relatively low levels of investment on environmental assets and improved revenue capture.

Source: http://www.worldecotax.org/downloads/info/documentation_gtz-Workshop.pdf.

7. Perspectives for EFR in the forestry sector in Nicaragua

In Nicaragua, on behalf of BMZ, GTZ has supported a participatory study on the framework conditions of EFR in the forestry sector, the current state of play in relation to EFR legislation, and perspectives for pursuing new EFR measures in the sector in the future. A participatory, multi-stakeholder process on good forest governance, in which the different sectors of society are well represented, has been fostered and a new forest policy, including financing mechanisms, has been developed. Based on that study and on the process of good forest governance, GTZ aims to work together with the partner country to support the reform of EFR in the Nicaraguan forestry sector to generate positive environmental effects – e.g. sustainable forest management and / or a reduction in illegal logging – while gaining positive fiscal benefits through an increase in the public revenue base. Initial modifications of the public tax system have already been implemented. One of the outcomes has been a tax exemption system for investments in forest plantations.

Source: GTZ, 2007.

8. Case Studies: Transport control by Road pricing and congestion charging – Singapore, South Korea

Singapore: Singapore's cordon pricing measure, an Area Licensing Scheme (ASL), covers a 7.5 square km restricted zone in downtown Singapore. The restrictions are applied during the morning peak, between 7:30 and 10:30h. Access to the restricted zone is made possible through the purchase of daily or monthly licenses at post offices and kiosks outside of the zone. Since 1989, the access restrictions have been extended to include carpools and trucks (which were previously exempt under the scheme). Singapore's ASL has been successful in reducing motorised traffic within the zone by 50%, and private car travel by 75%. The speed of the traffic has also been increased from approximately 18 to 30 km/h. The scheme was complimented by the doubling of parking charges (Hook and Wright, 2002).

South Korea: Road pricing was introduced to the #1 and #3 Tunnels linking downtown Seoul (South Korea) to the southern part of the city. Both corridors experienced high volumes of private vehicle traffic, leading to heavy congestion. Private cars with three or more passenger, buses, vans and trucks were exempt from the 2,000 won charge (US$2.20), as was all traffic on Sundays and national holidays. The road pricing schemes resulted in a 34% reduction in peak period passenger vehicle volumes in the two years following implementation. Average travel speeds also increased by 50%, from 20 km/h to 30 km/h. As it was not an area-wide charging scheme, traffic volumes increased on alternative routes up to 15%. However, average travel speeds also increased as a result of improved flows at signalled intersections and increased enforcement of on-street parking rules on alternative routes (World Bank, 2002).

Source: Transport and Climate Change, Module 5e, Sustainable Transport: A Sourcebook for Policy-makers in Developing Cities, http://www.gtz.de/en/themen/umwelt-infrastruktur/transport/18708.htm

9. Review and revision of the pollution levy system (PLS) in China

China's Pollution Levy System (PLS) is among the most extensive in the world. It is an example of pragmatic and gradual implementation of EFR, in the context of a transition towards a market-based economy. The scheme began in 1979. Initially confined to only a few provinces, it has expanded over time, building on the lessons from implementation experience. By 1994, over USD 2 Billion had been collected from environmental levies. The system has been regularly monitored and amended in light of weaknesses identified, with respect to the level of the levies, enforcement difficulties and others as well as the tradeoffs faced by EPBS between reducing emissions and generating revenue. The PLS does not conform to a "textbook" example of environmental taxation. For example, fees are paid only for discharges exceeding a certain level, thus resembling non-compliance fees. In addition, the funds collected are used first to finance abatements expenditures by industry and for central administrative costs. While the fees are considered to be lower than marginal abatement costs, effectiveness of collection is linked to population density and income levels, suggesting that public pressure plays an important role in stimulating enforcement efforts. Despite uneven progress in different parts of the country, the system is generally considered to play an important role in containing pollution in China in a period of rapid industrialisation.

Source: http://www.oecd.org/dataoecd/14/25/34996292.pdf

ANNEX 4:

GDP per capita of countries in 2007

Rank	ACP country	Country	Intl. $ (PPP $)	Least Developed country	Country selected
1		Luxembourg	78,985		
2		Norway	53,334		
3		Singapore	50,299		
4		United States	45,790		
5		Ireland	43,035		
—		*Hong Kong* (China)	42,321		
6		Switzerland	39,963		
7		Austria	38,155		
8		Netherlands	37,960		
9		Iceland	37,174		
10		Sweden	36,365		
11		Denmark	35,787		
12		Canada	35,729		
13		Australia	34,882		
14		Belgium	34,458		
15		Finland	34,411		
16		United Kingdom	33,535		
17		Japan	33,525		
18		France	33,414		
19		Germany	33,154		
20		Greece	33,074		
21		Spain	31,312		
22	ACP	Equatorial Guinea	30,610		
23		Italy	29,934		
24		Cyprus	27,173		
25		Slovenia	27,095		
26		New Zealand	26,110		
27		Israel	25,918		
28		Korea, South	24,712		
29		Czech Republic	23,194		
30		Saudi Arabia	22,907		
31	ACP	Trinidad and Tobago	22,658		X
32		Portugal	21,755		
33		Estonia	21,252		
34		Slovakia	20,206		
35	ACP	Barbados	18,900		X
36		Hungary	18,679		
37		Lithuania	17,671		
38		Latvia	17,518		
39	ACP	Antigua and Barbuda	17,118		
40		Poland	15,811		
41		Croatia	15,516		
42	ACP	Gabon	15,177		X

43		Russia	14,743	
44		Libya	14,721	
45	ACP	Seychelles	14,412	
46		Chile	13,885	
47	ACP	Saint Kitts and Nevis	13,429	
48	ACP	Botswana	13,418	X
49		Malaysia	13,379	
50		Argentina	13,244	
51		Mexico	12,780	
52		Turkey	12,481	
53		Venezuela	12,168	
54		Panama	11,623	
55		Romania	11,394	
56		Bulgaria	11,298	
57	ACP	Mauritius	11,276	X
58		Uruguay	11,236	
59		Iran	10,934	
60		Belarus	10,850	
61		Kazakhstan	10,829	
62		Costa Rica	10,658	
63		Serbia	10,393	
64		Montenegro	10,225	
—		Lebanon	10,113	
65		*World*	9,900	
66	ACP	South Africa	9,736	X
67		Brazil	9,570	
68	ACP	Saint Lucia	9,542	
69		Macedonia, Republic of	8,543	
70		Thailand	8,138	
71		Algeria	7,952	
72		Peru	7,842	
73	ACP	Suriname	7,675	X
74	ACP	Dominica	7,589	
75		Tunisia	7,506	
76		Azerbaijan	7,477	
77		Bosnia and Herzegovina	7,468	
78	ACP	Saint Vincent and the Grenadines	7,408	
79		Ecuador	7,397	
80	ACP	Grenada	7,009	
81		Colombia	6,958	
82		Ukraine	6,916	
83	ACP	Dominican Republic	6,709	
84	ACP	Belize	6,674	
85	ACP	Jamaica	6,461	X
86		Albania	6,385	
87		El Salvador	5,735	
88		Armenia	5,711	

89	ACP	Angola	5,467	LDC	
90		Egypt	5,352		
91		China, People's Republic of	5,345		
92		Maldives	5,341		
93	ACP	Namibia	5,172		X
94	ACP	Swaziland	4,914		
95		Jordan	4,903		
96		Bhutan	4,842		
97		Georgia	4,667		
98		Syria	4,513		
99		Guatemala	4,483		
100	ACP	Fiji	4,439		
101		Paraguay	4,332		
102		Sri Lanka	4,259		
103		Bolivia	4,208		
104		Morocco	4,063		
105	ACP	Samoa	3,989	LDC	
106		Indonesia	3,728		
107	ACP	Vanuatu	3,695	LDC	X
108		Honduras	3,682		
109	ACP	Tonga	3,535		
110	ACP	Congo, Republic of the	3,512		X
111	ACP	Guyana	3,411		
112		Philippines	3,410		
113	ACP	Micronesia	3,324		
114		Mongolia	3,222		
115	ACP	Cape Verde	3,043		X
116		India	2,753		
117		Vietnam	2,600		
118		Moldova	2,560		
119		Pakistan	2,525		
120		Nicaragua	2,485		
121		Uzbekistan	2,444		
122		Yemen	2,336	LDC	
123	ACP	Papua New Guinea	2,296		
124		Laos	2,140	LDC	
125	ACP	Cameroon	2,124		X
126	ACP	Sudan	2,088	LDC	
127	ACP	Djibouti	2,061	LDC	X
128		Kyrgyzstan	1,980		
129	ACP	Nigeria	1,977		
130	ACP	Mauritania	1,928	LDC	
131	ACP	Solomon Islands	1,820	LDC	
132		Cambodia	1,802	LDC	
133		Tajikistan	1,754		
134	ACP	Côte d'Ivoire	1,673		
135	ACP	Senegal	1,666	LDC	X
136	ACP	São Tomé and	1,639	LDC	

		Príncipe			
137	ACP	Lesotho	1,542	LDC	
138	ACP	Kenya	1,535		
139	ACP	Chad	1,478	LDC	
140	ACP	Kiribati	1,412	LDC	
141	ACP	Zambia	1,359	LDC	X
142	ACP	Ghana	1,335		X
143	ACP	Benin	1,312	LDC	X
144	ACP	Haiti	1,311	LDC	
145		Bangladesh	1,242	LDC	
146	ACP	Gambia, The	1,233	LDC	
147	ACP	Tanzania	1,209	LDC	X
148	ACP	Comoros	1,149	LDC	
149	ACP	Guinea	1,140	LDC	
150	ACP	Burkina Faso	1,124	LDC	X
151	ACP	Mali	1,084	LDC	
152		Nepal	1,033	LDC	
153	ACP	Uganda	939	LDC	X
154	ACP	Madagascar	935	LDC	
155	ACP	Rwanda	867	LDC	
156	ACP	Togo	809	LDC	
157	ACP	Mozambique	796	LDC	X
158	ACP	Ethiopia	779	LDC	X
159	ACP	Timor-Leste	776	LDC	X
160	ACP	Malawi	756	LDC	X
161	ACP	Central African Republic	714	LDC	
162	ACP	Sierra Leone	677	LDC	
163	ACP	Niger	628	LDC	
164	ACP	Eritrea	538	LDC	
165	ACP	Guinea-Bissau	477	LDC	
166	ACP	Liberia	358	LDC	
167	ACP	Burundi	341	LDC	
168	ACP	Congo, Democratic Republic of the	298	LDC	

Source: World Bank data referring to the year 2007. PPP GDP 2007 & Population 2007, World Development Indicators database, World Bank, September 10, 2008. Note: Per capita values were obtained by dividing the PPP GDP data by the population data.

Least developed country: http://www.un.org/special-rep/ohrlls/ldc/list.htm (19.6.2009)

Countries are further classified in

- Other low income countries: per capita GNI < 825 US$ in 2004
- Lower middle income countries: per capita GNI US$ 826 – 3,255 in 2004
- Upper middle income countries: per capita GNI US$ 3,256 – 10,065 in 2004

Source: http://www.oecd.org/dataoecd/32/12/41751233.pdf

The 25 preselected countries are covering all the different classification as presented above.

ANNEX 5:

Overview of Interviews/Information received

	Country	EC desk officer	interview in person	info received from EC Delegation	EC delegation – weblinks
1	Benin	Kataryna Motoskova	N/A		
2	Botswana	Ulrike Braun, (acting)	N/A		http://www.delbwa.ec.europa.eu/
3	Cameroon	Clodagh O'Brien*	Yes		http://www.delcmr.ec.europa.eu/webeu/index.php
4	Cape Verde	Roberto Rensi	N/A		http://www.delcpv.ec.europa.eu/ (currently not working)
5	Congo (Brazzaville)	Francesca Raimondi Augeri*	Yes		http://www.delcod.ec.europa.eu/
6	Djibouti	Mikołaj Karłowski*	Yes		http://www.deldjijib.dj/fr/index.htm
7	Eritrea	Tom Vens, Mikołaj Karłowski	Yes		http://www.deleri.ec.europa.eu/start.htm
8	Ethiopia	Tom Vens*	Yes		http://www.deleth.ec.europa.eu/en/index.htm
9	Gabon	Piotr Byczkowski*	N/A		http://www.delgab.ec.europa.eu/
10	Ghana	Petra Gombalova	N/A		http://delgha.ec.europa.eu/en/index.htm
11	Malawi	Passadeos Panayiotis	N/A	Yes	http://www.delmwi.ec.europa.eu/en/index.htm
12	Mauritius	Laura Zampetti	Yes		http://www.delmus.ec.europa.eu/en/home.aspx
13	Mozambique *	Susana Roson*	N/A		http://www.delmoz.ec.europa.eu/en/index.htm
14	Namibia	Ulrike Braun (acting)	N/A		http://www.delnam.ec.europa.eu/home.htm
15	Senegal	Jean Pierre Bou	Yes		http://www.delsen.ec.europa.eu/fr/siteindex/index.php
16	South Africa	Miriam Brewka, Lluis Navarro	Yes		http://www.eusa.org.za/
17	Tanzania	Linda Hales*	Yes		http://www.deltza.cec.eu.int/
18	Uganda	Maria-Paola Piazzardi*	Yes		http://www.deltza.cec.eu.int/
19	Zambia	Daniela Concina*	Yes	yes	http://www.delzmb.ec.europa.eu/en/index.htm
20	Barbados	Victor Sukup*	Yes		http://www.delbrb.ec.europa.eu/en/index.htm
21	Jamaica	Bastiaan Van Helden*	N/A	Yes	http://www.delbrb.ec.europa.eu/en/index.htm
22	Suriname	Rune Skinnebach*	Yes		http://www.delguy.ec.europa.eu/en/index.htm
23	Trinidad and Tobago	Katja Afheldt*	N/A	Yes	http://www.deltto.ec.europa.eu/en/index.htm
24	East Timor	Achim Tillessen	N/A		
25	Vanuatu	Gosia Lachut	N/A		http://www.delvut.ec.europa.eu/en/index.htm
26	Budget Support Desk Officer for all countries	Christian Peters	Yes		

- Ethiopia – additional interview with Maria-Paoloa Piazzardi.
- Mozambique, Angola – additional interview with Konstantin von Metzingen.
- Cameroon, Congo, Cameroon, Gabon, Uganda, Mozambique, Tansania, Jamaica, Zambia, Suriname, Barbados, Ethiopia, Guyana, Dominican Republic, Trinidad and Tobago – additional interviews with Christian Peters.

ANNEX 6:

Summarising table on suggested countries

	General Budget Support	Govern ance / Political stability	Level of dev'ment (GDP) – 2007 PPPUSD	Existence of natural resources	
Barbados	-	+	18,900	-	Car.
Jamaica	+	+	6,461	+/-	Car.
Mauritius	+	+	11,276	-	Africa
Mozambique	+	+	796 (LDC)	+	Africa
Senegal	+	+	1,666 (LDC)		Africa
South Africa	+	+	9,736	+	Africa
Tanzania	+	+	1,209 (LDC)	+	Africa
Trinidad and Tobago	-	+	22,658	+	Car.
Uganda	+	(+)	939 (LDC)	+	Africa
Vanuatu	+	+	3,695 (LDC)	+	Pacifc
Zambia	+	+	1,359 (LDC)	(+)	Africa

Note: Source for political stability – see Country Strategy Paper

During project implementation and in particular during the interviews with EC desk officers and EC delegation it was realised that the responses regarding the two criteria 'availability of local experience with EFR' and 'interest of EFR in country' are not as constructive as expected. The main reason is rather straightforward as EFR is a rather new concept in development policy and did not find its way into the policy cycle. This finding is somehow not surprising and one of the objectives of this project is to change this situation.

<u>Additional country information:</u>

Barbados – country heavily relies on tourism and financial services; sugar industry was important in the past but now generates less than 1% of GDP

Jamaica – forest (timber), sugar – large public debt (131.5% of GDP) implying that public debt service payment absorbs up to 46.7% of total budget expenditure (FY 05/06)

Mauritius – in the past mono-crop sugar producer to an exporter of sugar, textiles and clothing, tourism and financial services / a central problem is in particular water scarcity, fishery important economic sector in terms of export earnings

Mozambique – mineral resources (coal and gas deposits), but has to import all fuels it needs because of lack of refineries; agriculture provides income for more than 85% of the population but only contributes 23% to GDP

Senegal –

South Africa – EFR policies are already implemented

Tanzania – gold, timber, natural gas, diamonds, other minerals, wildlife

Uganda – natural resources account for 85% of earnings

Vanuatu – substantial and important biodiversity

Zambia – copper, small gemstones, but also rapid deforestation