

# “FISCAL MECHANISMS FOR A SUSTAINABLE FOREST SECTOR”

54<sup>TH</sup> Session of the ITTO BUSINESS COUNCIL MEETING

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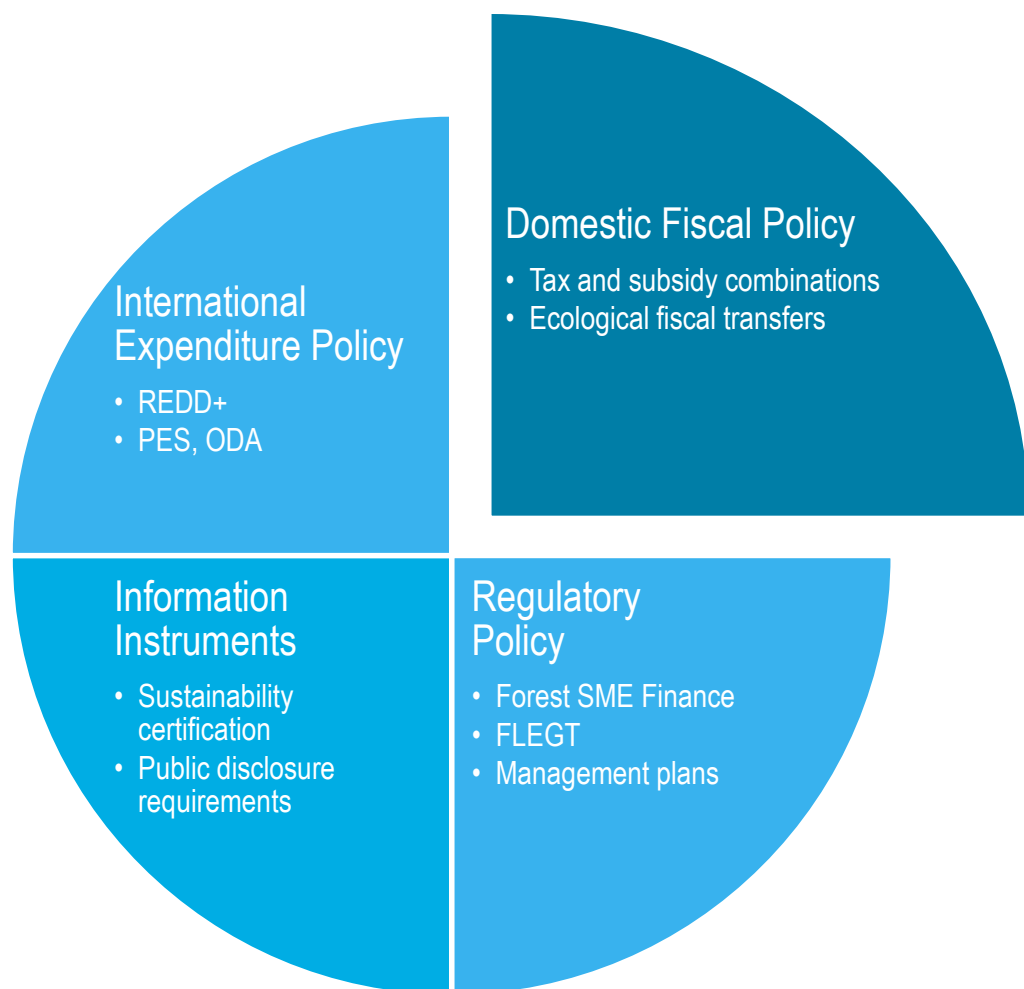


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# The Role of Fiscal Policy within wider Forest Sector Policy



**Fiscal policies need to be an integral component of a smart policy mix to reduce deforestation.**

**Fiscal policies represent an immediately available and low-cost policy option complementing other forest conservation policies, such as REDD+.**

**Fiscal policies can also help raise domestic revenues while accomplishing environmental goals.**

# The Problems Posed by Fiscal Policies for the Forestry Sector

## 1. Complex forest sector taxes don't support sustainability

## 2. Difficulties with fiscal enforceability

## 3. Contradictory incentives across land use sectors

- Current fiscal transfers and incentives boost deforestation
- Contradictory fiscal policies
  - Within countries, there may be multiple fiscal policies which provide contradictory incentives for and against deforestation.

### Brazil Example

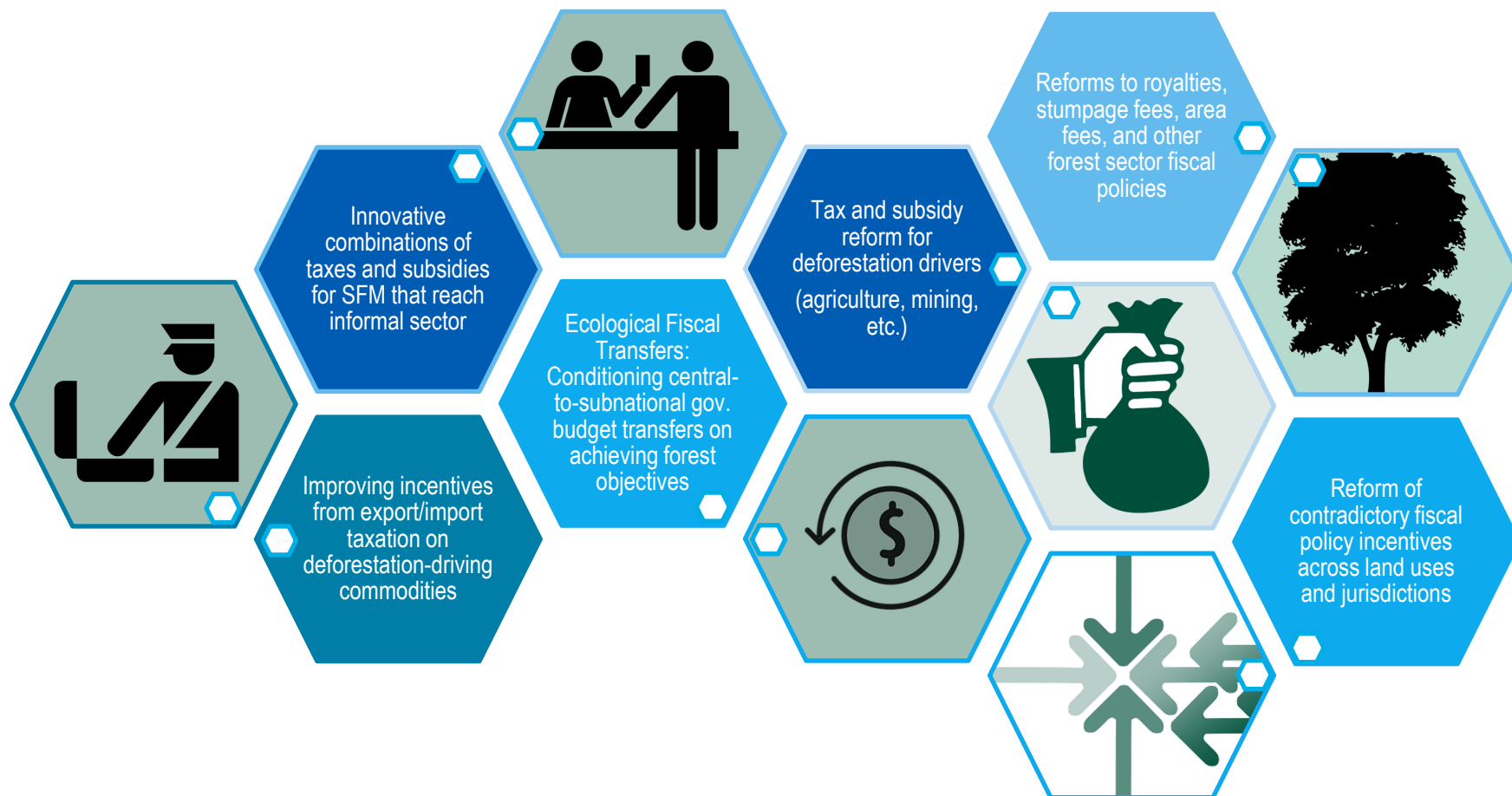
Decrease in the land tax rate with increases in the percentage of property being used for agriculture

Size of property (ha)	Area being used for agriculture (%)				
	<30%	31 to 50%	51 to 65%	66 to 80%	80% >
<50ha	1	0.7	0.4	0.2	0.03
51 to 200ha	2	1.4	0.8	0.4	0.07
201 to 500ha	3.3	2.3	1.3	0.6	0.1
501 to 1000ha	4.7	3.3	1.9	0.85	0.15
1001 to 5000ha	8.6	6	3.4	1.6	0.3
>5000ha	20	12	6.4	3	0.45

### Contradictory Fiscal Policies

1. Land tax creates incentive for clearing agricultural land
  2. Ecological fiscal transfer creates incentives for forest protection
- ➔ Benefits of reform: Budget savings and clear incentives

# Fiscal Interventions Analyzed by this Work Program



## Main Messages from the Workshop October 24/25



**Fiscal policy is an often-neglected component and need to be part of the dialogue**

**Cannot be seen in isolation of good governance to be effective**



**Contradictory incentives of existing forest-related taxes need to be addressed and can be more cost efficient for countries.**



**A range of fiscal instruments are tested and available to help support sustainable forest management**



## Where do we stand?

### ITTO Support

- Grant received from **ITTO of 50,000 US\$**
- In addition resources from FIP and PROFOR

### Objective

- **Investigate practical fiscal mechanisms that could be used to incentivize sustainable production of forest products and associated commodity supply chains**

### Collaboration

- Collaboration between ITTO and the World Bank departments for Environment & Natural Resources and Macroeconomics, Trade & Investment

### External Contributors

- International Monetary Fund, World Resource Institute, International Fund for Agricultural Development, CIRAD, FSC, European Environment Agency and academics

# Progress of the Work

**February – August, 2018**  
Review of literature of experiences on fiscal policies

**August – October, 2018**  
Writing chapters

**October, 2018**  
Workshop presenting and peer-review of chapters

**January 2019 – March 2019**  
*In-country workshops applying study to country contexts*

**April – July, 2019**  
Finalizing the report, Copy-editing, production, launch





# Moving Forward



**One global joint workshop** between Ministries of Finance and Forests to discuss fiscal policy for reducing deforestation and forest degradation with ITTO & WB support

**Several in-country workshops** to present and discuss the study and its potential application in the context of the requesting country

- Financial support is required for in-country workshops
- Identification of potential countries for these workshops based on joint expressions of interest by countries' Forest/Environment and Finance Ministries

Finalization & adaptation of study based on country feedback

- THE ELEPHANTS IN THE ROOM -

SHALL WE  
SQUISH IT?

