

**PRUNING THE MONEY-TREE TO ENSURE SUSTAINABLE GROWTH:
FACILITATING SUSTAINABLE DEVELOPMENT THROUGH
MARKET-BASED INSTRUMENTS**

AR Paterson^{*}

Summary

There is growing global recognition that market-based instruments (MBI), such as environmentally-related taxes, levies and user-charges, are viable tools for facilitating environmental management and, ultimately, sustainable development. These instruments seek to correct market failure to value, or accurately value, environmental goods and services that consequently lead to environmental concerns being accorded insufficient consideration in everyday market activities. South Africa has introduced various MBI, largely in the form of environmentally-related taxes pertaining to mining, agriculture, electricity supply, water supply, waste water discharge and various products such as fuel and plastic shopping bags. The primary rationale underlying the introduction of these instruments has been revenue generation. Government has, however, acknowledged that MBI have potential to achieve other objectives, namely to mould human behaviour, encourage more efficient resource use and improve actual environmental outcomes.

In an effort to facilitate further debate on the issue, the National Treasury recently published a draft policy paper titled *A Framework for Considering Market-Based Instruments to Support Environmental Fiscal Reform in South Africa*. The Draft Policy Paper reflects a significant shift in fiscal policy and provides four broad tax reform options that could contribute towards meeting

^{*} BSocSci LLB (Cape Town) LLM Environmental Law (Cape Town). Senior Lecturer, Institute of Marine and Environmental Law, Faculty of Law, University of Cape Town.

both fiscal and environmental objectives, namely: reforming existing environmentally-related taxes and charges in the transport and solid waste sectors; introducing new environmentally-related taxes in the electricity and waste water sectors; reforming legal aspects of non-environmentally-related taxes with perverse environmental incentives and creating incentives to improve environmental outcomes. This article briefly considers each of the above options set out in the Draft Policy Paper by focusing on the following questions: Why has there been a shift toward the use of MBI to achieve environmental outcomes? To what extent are they used currently in South Africa? What are the options for extending their use in South Africa? What are the prerequisites for their successful implementation?