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THE BISCAY MODEL: ALIGNING TAX POLICY WITH THE UNITED NATIONS SUSTAINABLE DEVELOPMENT GOALS

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THE BARTLETT

The Biscay Model: Aligning tax policy with the United Nations sustainable development goals

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Summary of Narrative

- The climate emergency and achieving the UN Sustainable Development Goals (SDGs) require a new, more active approach from governments. This approach should focus on co-creating and shaping markets and tilting the playing field towards an inclusive and sustainable economy.
- Taxation is one of the tools that can provide a foundation for shifting the system and rethinking the relationship between the state, organisations and the economy.
- In 2020, the Institute for Innovation and Public Purpose (IIPP) undertook a partnership with the Biscay regional government. This has focused on regional fiscal policy tools and their roles in addressing the climate emergency and other SDGs. It emphasises the role of governments in shaping markets, providing direction to industries and innovation, and creating opportunities for economic growth that is innovative, green, and inclusive.
- In particular, the partnership has explored the question: How can taxation tools advance the United Nations Sustainable Development Goals (SDGs)? This resulted in the development of a composite index tool that we call the Biscay Model, which links corporate taxation and corporate SDG performance in priority areas.
- The purpose of this brief is to share a novel approach to evaluating corporate SDG performance, as well as to provide an expanded view of taxation. This brief encourages policy-makers and other stakeholders, particularly at the sub-national level, to consider the market-shaping tools at their disposal – from taxation and direct incentives to procurement and collaboration – in their work on climate and the SDGs.

What is the problem?

The Biscay region, due to its high levels of tax and regulatory autonomy and unique history, has been at the forefront of efforts for sustainable, equitable growth and wellbeing for its inhabitants. However, the region faces a series of specific challenges around the SDGs, and the Biscay Government has identified three priority areas:

- **Demographic shifts**: The challenge of demographic shifts encompasses concerns around population ageing and care, gender equity, low birth rates and migration.

- **Climate crisis**: The climate challenge in the region relates to both the need to protect and restore natural areas, as well as to address climate risks through the reorientation of the economy towards more sustainable production and reduce greenhouse gas emissions.

- **Economic resilience**: Finally, the economic resilience priority speaks to efforts to shift the Biscay economy to be greener, more inclusive, and focused on innovation and entrepreneurship to drive economic growth.

Dominant policy models to address these challenges largely focus on addressing market failures, such as incomplete information or negative externalities; however, this limits the state's action and such approaches are often inadequate when innovation is required (1). The Biscay Model posits the importance of regional governments in this context, and shows how taxation, one of multiple policy instruments, has a role to play in their policy response that is often overlooked.

What is the solution?

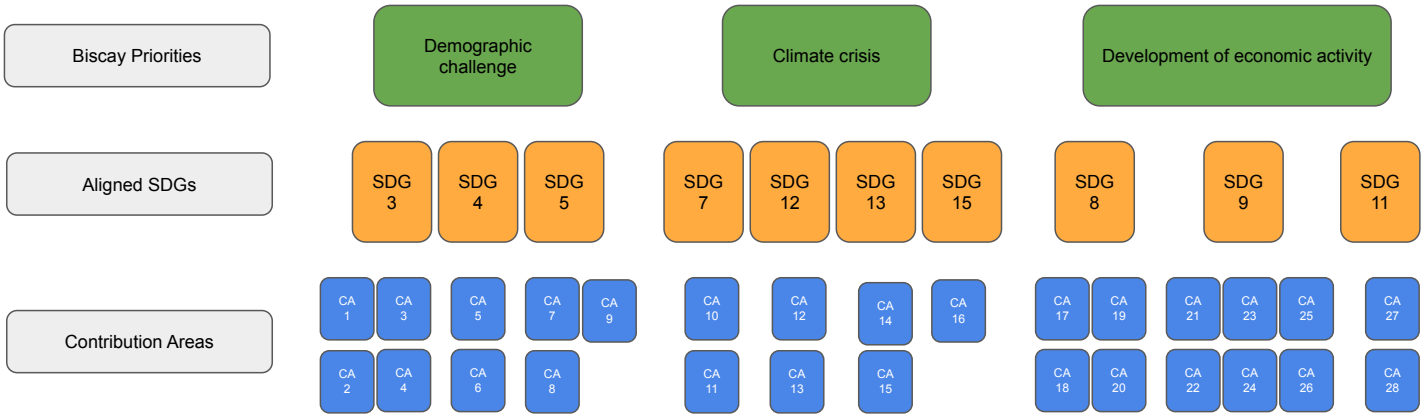
Through joint work with the Biscay government, IIPP has explored pathways for taxation to be used to address the climate crisis and advance other SDGs. The Biscay government has the distinctive ability to collect taxes and establish tax laws, as well as its strong regional commitment to innovation and equality; as such it provides a 'living lab.'

The result of this joint work, the Biscay Model, is grounded in research at the UCL Institute for Innovation and Public Purpose, which emphasises the role of governments in shaping markets to be greener and fairer (2, 3). Accordingly, this work sees taxation as a vehicle for advancing the SDGs – not only by raising revenues and encouraging or discouraging behaviours (4,5,6,7) – but also through shaping markets. Taxation provides direction to industries and innovation, creating opportunities for economic growth that is innovative, green, and inclusive (8).

Much of the literature has focused on taxation as an indirect tool, namely to generate the revenue needed to pursue SDG-related initiatives such as public health (SDG3) and education (SDG4), and taxation as a direct tool, for example, to discourage unhealthy behaviour such as smoking (7). Along these lines, tax authorities may wish to conduct a comprehensive appraisal of their tax portfolio, assessing whether they have positive, negative, neutral or mixed effects on SDGs.
The Biscay Model (9), however, takes a composite index approach. Index models and composite indicators are tools used to compare national or regional performance on challenging and multi-faceted issues such as competitiveness, human development and sustainability. As summarised by the OECD, these tools have the advantage of summarising complex realities, being simple to interpret, and enabling comparison, among other benefits (10).

As an index, the Model enables authorities to assess the impact of companies across SDG priority areas. For a tax authority, this means that companies with different scores on the index can receive different tax treatments, an incentive to move towards greener and more equitable practices and provide a benefit to greener industries. Beyond the incentive, corporate reporting creates new and valuable data for authorities and raises awareness within corporations of their own practices and impacts. As such, the model is also communicative: the measures and targets express the expectations and aspirations of the region, providing direction.

The Biscay Model index is composed of 28 Contribution Areas (CAs) or indicators, which are linked to the regional priorities and their associated SDGs 3, 4, 5, 7, 8, 9, 11, 12, 13, and 15. The 28 CA indicators are wide ranging, and, for example, include the percentage of women in leadership, engagement in partnerships, and greenhouse gas emissions. Within each CA, the model defines reporting requirements as well as including performance targets. When existing targets were not available, the targets were created through reference to regional targets or international leaders. Targets have often been absent in excellent work to date on reporting standards, and this marks an advance in this area.



Finally, the Biscay Model also uses a novel scoring system within each indicator. Companies who report against the indicator would receive one point (awareness level), whereas companies that meet interim performance targets would receive two points (action level); companies that reach the 2030 target would receive three points (achievement level). While the weighting and point distribution may be adjusted, this system is meant to incentivise companies to take part in this initiative and engage in reporting, even if their performance is below the target. These scores are tabulated to create the overall index score.

Taken together, the Biscay Model provides a framework for companies to report and be assessed on their contributions to the Biscay region's SDG priorities. This has the potential to create a unified tool to track and incentivise better practices, providing direction to the private sector in the region.

What is stopping the solution being implemented and the necessary response?

Embracing market-shaping tools requires public servants to imagine new solutions in changing environments and to take risks by investing in new policy approaches. Changes to tax systems require political will and coordination, as well as the participation of industry and third sector partners. While the Biscay project was initiated by the Biscay government and championed by its leaders and tax experts, support from industry and from across the Basque region will be essential for this model's adoption and implementation. The model is currently being considered by the Basque regional governments, with the objective of being refined through further consultation and adopted in the coming year.

Conclusion

The Biscay Model provides a framework for aligning tax policy with the SDGs, including climate action. More than suggesting a marginal improvement to legislation, this model provides a foundation for shifting the system and rethinking the relationship between the state, organisations and the economy. This marks the first attempt globally to bring together taxation and the SDGs in tax policy.

Beyond its novelty, the model is notable for three key reasons. Firstly, it sets a direction towards de-financialisation and sustainability, using the tax system to help shift investment and activity towards the SDGs. Secondly, it provides an example of how taxation and fiscal policies can be used to support important missions like the SDGs. And, thirdly, this sets out a means of assessing contributions to the SDGs, building on previous efforts that have focussed primarily on reporting.

The SDGs speak to the greatest challenges of our day, with the climate emergency at the fore. The Biscay Model marks an important step forward in our efforts to achieve the 2030 Agenda and the better world that it represents. This Policy Brief calls for governments worldwide to be more proactive and think more expansively about their tools to shift to a sustainable economy. Leaders should set up bold and clear directions and redesign policy tools to crowd in bottom-up investments and innovation towards sustainable and inclusive growth.

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