The role of the Coalition of Finance Minister for Climate Action in Fostering Fiscal Policies for a Green Recovery

15 September 2021
1. Designing Economic Policies in the Aftermath of COVID-19
2. Macro-fiscal context and supportive policies
3. The Coalition continues its work in Green Recovery
4. Implementation Plan on Carbon Pricing – Indonesia
The Coalition of Finance Ministers for Climate Action (CFMCA/Coalition) Overview

**Coalition Objectives**

Develop economic and financial policies that achieve low-carbon and climate-resilience growth through:

- Sharing **good practices and country experiences**
- Developing **knowledge, tools, and resources**
- Workshopping **domestic policy challenges**
- Learning from **constituencies** via stakeholder dialogues
- Convening **global experts** to inform our climate agendas
- Supporting **Finance Ministers** in designing climate policies

**Coalition Members**

- 62 member countries (as of July 2021)
- 18 Institutional Partners

**Institutional Partners**

- Provide expertise and thought leadership to Coalition’s network.

**Helsinki Principles**

- HP1: Align the policies and practices with the Paris Agreement;
- HP2: Share experience and expertise;
- HP3: Work towards measures that result in effective carbon pricing;
- HP4: Take climate change into account in policy;
- HP5: Mobilize private sources of climate finance;
- HP6: Engage actively in the domestic preparation and implementation of NDCs

**Milestone**

- The governments from 26 countries joined forces to launch the CFMCA
- Helsinki Principles is endorsed by member countries

**2nd Ministerial Meeting**

- Member countries increased into 50 countries and agreed on Coalition Work Priority

**3rd Ministerial Meeting**

- Held at COP25
- Launched Santiago Action Plan that outlines the strategy implementing Helsinki Principles

**4th Ministerial Meeting**

- Agreement on the governance charter and new work priorities related to climate action in the COVID-19 pandemic situation

**Current Co-Chairs**

- Indonesia (2020-2022)
- Finland (2021-2023)

**Secretariat**

- World Bank Group
- International Monetary Fund
In 2020, The Coalition initiated a work to analyze the implications of the COVID-19 crisis on the Coalition’s work agenda and how economic climate policies can yield the best results for the recovery phase.

We highlight that 3 key frameworks are necessary for a green recovery.

**01 Strong investment**
Designing strong investment strategies, programmes and projects: fast, labour-intensive in the short run, high multipliers, co-benefits, including for climate and resilience.

**02 Macro-fiscal context**
Macro-fiscal context and supportive policies and institutional frameworks: carbon prices, regulations, bailout conditionalities.

**03 Financial System**
A supportive financial system: Ensure finance is available and is aligned with sustainability - both to support stimulus investments and beyond, including stronger action to shift the financial system.

MACRO-FISCAL CONTEXT AND SUPPORTIVE POLICIES

Macro-fiscal context: fiscal expansion will be necessary but challenging for many countries. Fiscal multipliers from green projects can outperform those from alternative investments. In the needs of fiscal expansion, fiscal multiplier effects of green projects, concerns on debt, we highlight 3 key policies:

**Carbon pricing**
Environmental taxation is a key priority for fiscal reform; it can tilt incentives to support green recovery strategies and investments and it can generate valuable revenues while increasing economic efficiency.

**Regulations and standards**
It is important to complement carbon pricing and fossil fuel subsidy reform that can be particularly timely and effective in times of crisis. Green public procurement can also support a sustainable recovery.

**Bailout conditionalities**
It can save jobs, ensure a just transition for workers, and accelerate low-carbon restructuring, particularly in polluting firms hit hard by the pandemic.
- In the short term, bailouts will focus on stabilization and jobs.
- As longer-term support is also likely to be needed, it is at this point that bailout conditions could be linked to sustainability objectives, including climate, to support a strong and sustainable recovery.
Role of CFMCA for fostering fiscal policies in green recovery
At the Fourth Ministerial Meeting, the Coalition highlighted the importance of green recovery.

Oct 2020

Soon

Designing its work program for 2021, in which on green recovery.

Early 2021

April 2021

The fifth Ministerial Meeting provides further guidance from Minister’s members

Designing the second report on Green Recovery (soon to be launched)

Soon
THE ROLE COALITION FOR FOSTERING FISCAL POLICIES IN GREEN RECOVERY

**HP1**
Green Recovery report titled “Fiscal balance in a carbon neutral society,” which would be completed by October 2021.

**HP2**
Institutional partner activities on training and capacity building, as well as relevant training courses by universities, are being reviewed.

**HP3**
Four workstreams have been established: (1) carbon taxation (2) fossil fuel subsidies, (3) ETS Pricing System, (4) Border Carbon Adjustments.

**Other Work**
includes joint workshop with NGFS last November in the area of climate risk management and coordinated actions between finance ministries and central banks.
The results

1. **Advanced economies have more capacity** to provide fiscal stimulus and carry out recovery plans than emerging economies.
2. The priority sector in implementing green recovery is the **circular economy and digitalization**.
3. Most investment constraint is **insufficient project pipeline and preparation**
4. **Political economy and insufficient technical capacity** are the factors holding back to implement green recovery
5. **Access to green/sustainable finance** is the most important constraints on financing (green) recovery plans

Average size of rescue stimulus vs recovery plan in advance and emerging economies

Types of recovery investments
Total rescue and recovery: 10% of GDP

Panel A: Rescue and recovery spending

Emerging market and developing economies
(26 countries, representing 31tn in GDP)

Advanced economies
(24 countries, representing 51tn in GDP)

Panel B: Recovery spending and share of green

Total green recovery spend: USD341bn
17% of total recovery spend

Advanced countries utilizes almost 17% of its GDP for rescue and recovery plan compared to only 7% of GDP of EMDE countries.
Identifying project pipeline remains of the top constraint for investment pre-COVID and during COVID-19, and countries’ political economy situation remains as top policy constraints for GFP.
Budget revenue remains as a top financial sources for recovery plans. Identifying project pipeline and aligning project financing to sustainability standards are still the most important constraints on financing green recovery plans.
The Political Economy challenges of Green Fiscal Policies

- Developed countries face challenges in distributional impact
- Developing countries face challenges in maintaining adaptation and mitigation reduction, coupled with economic growth and poverty reduction

Ensuring a socially inclusive GFP and to mitigate short term effects of GFP

- Engage for international support
- Prioritize best in class projects
- Focus on labour intensive short term projects
- channel financing activities with local government and civil society
- Ensure stimulus package takes a holistic perspective
- Promote environmental taxes, regulations and bailout conditions to incentivize green economy
Green budgeting policies are important to measure the success of GFP in both short term and long term

- The application of green budgeting across countries varies. For example, some aspects of green budgeting are quite sophisticated, e.g. tagging of revenues and expenses as green, or otherwise, and are not yet ready to be adopted across countries.

- The Coalition stresses the importance to adopt green budgeting policies to guide future decision to assess different proposals and design a fiscal recovery package that has a material impact on a government’s ability to meet its economic objectives as well as its environmental and climate goals and to inform revenue use of carbon tax.

- The successful use of carbon revenue use to lower income and corporate tax in British Columbia could be one of the successful example of job creation on the short term.
Indonesia is formulating Carbon Trading and Carbon Tax Implementation Plan
CARBON PRICING/ CARBON ECONOMIC VALUE

CARBON PRICING POLICY

- Objective: to reduce national GHG emission.
- A policy intervention to address market failure.
- Polluters-pay-principle practice.
- To promote low emission business ecosystem.
- An alternative financing source for sustainable development program.
- The Government of Indonesia is finalizing President Decree concerning the Carbon Economic Value and formulating carbon tax arrangement in the General Tax Provisions Bill.
- International carbon pricing implementation will consider Article 6 Paris Agreement discussion on COP 26

MARKET INSTRUMENT

1. CARBON TAX
   Proposed to be levied on carbon content or carbon emission activities.

2. PERFORMANCE-BASED PAYMENT
   Payment on emission reduction results.
The right timing and momentum in implementing carbon pricing will be crucial to minimize economic distortions after the COVID-19 pandemic.

Establishment of the design and mechanism of carbon trading and carbon tax that is synergistic and compatible with Indonesia's economic structure to create a just and affordable transition.

Implementation of carbon pricing and the accompanying policies to minimize impact and to optimize economic and environmental benefits.

- Strong and fair regulations
- Accountable MRV system
- Determination of effective carbon tax rates and the cap of carbon trading
CARBON TAX AND CARBON TRADING IMPLEMENTATION PLAN

2021:
1. Discussion with the parliament to incorporate Tax Carbon in General Tax Provisions Bill
2. Finalizing President Regulation on Carbon Pricing
3. Developing technical mechanism of Carbon Trading and Carbon Exchange
4. Piloting of carbon trading in power generation sector by the Ministry of Energy and Mineral Resources (MoEMR)

2022:
1. Establishing cap for coal power generation sector by the MoEMR
2. Stipulation of Ministerial Decree concerning carbon tax governance in power generation sector.
3. Implementation of carbon tax limited to coal-fired power plant
4. Emission Cap that will be used is the applicable cap in carbon trading piloting in power generation sector.

2025:
1. Full implementation of carbon trading through Carbon Exchange.
2. Expansion of the carbon taxation sector in accordance with sector readiness
3. Stipulation of Ministerial Decree concerning carbon tax governance in other sector.
Thank You!