



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

15 September 2021





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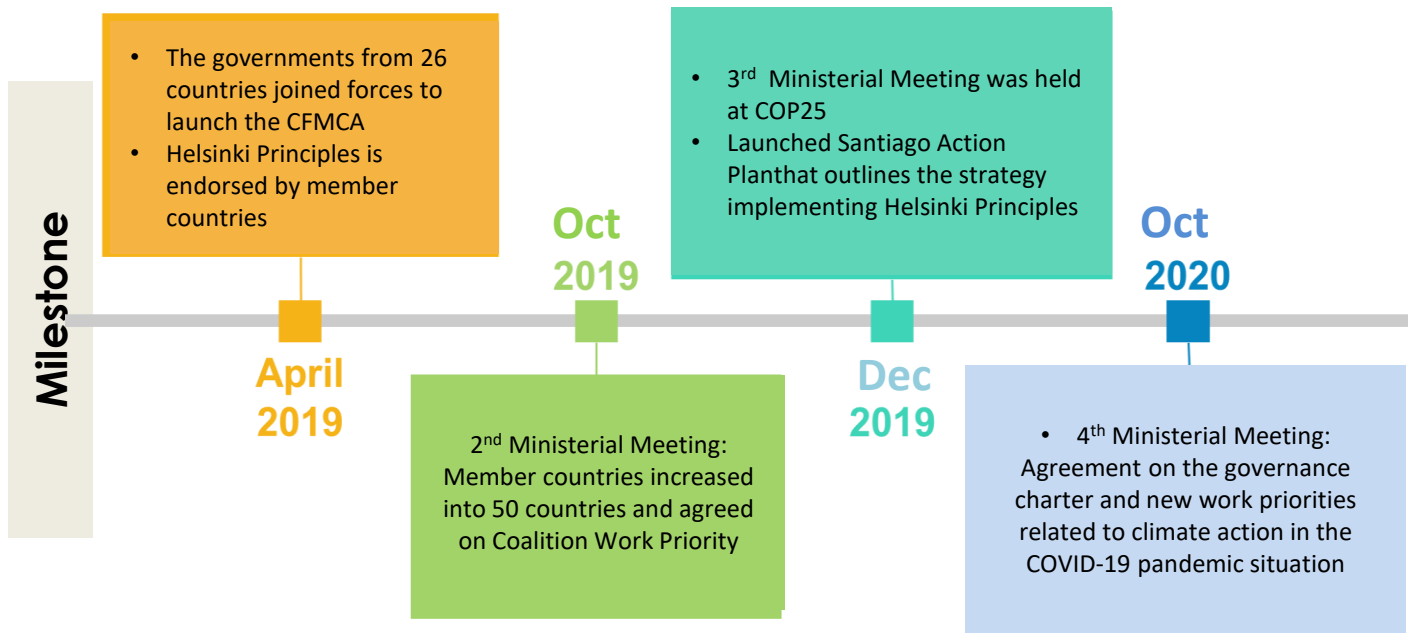


American Solar Energy Society



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



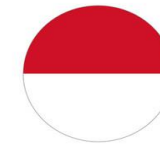
Coalition Objectives

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

Current Co-Chairs:

(2021-2023)



Indonesia

(2020-2022)



Finland

Secretariat :



World Bank Group



International Monetary Fund

Coalition Members

- **62 member countries (as of July 2021)**

- **18 Institutional Partners**

Institutional Partners provide expertise and thought leadership to Coalition's network.

Coalition members are required to endorse 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

DESIGNING ECONOMIC POLICIES IN THE AFTERMATH OF COVID-19

- 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.



Source: The Coalition first report “Better Recovery, Better World: Resetting Climate Action in the Aftermath of the COVID-19 Pandemic” with the assistance of Grantham Research Institute.

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:



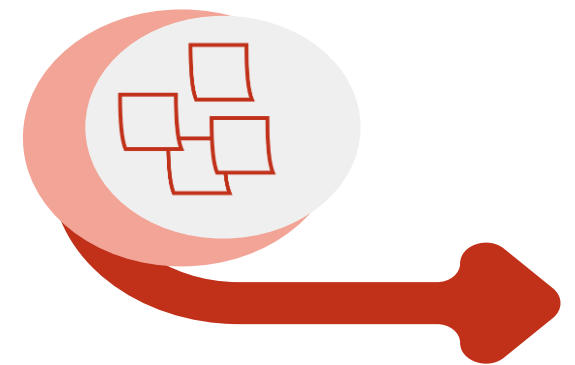
Carbon pricing

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

THE COALITION CONTINUES ITS WORK IN GREEN RECOVERY

At the Fourth Ministerial Meeting, the Coalition highlighted the importance of green recovery.

Oct 2020

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

Early 2021

Soon

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

April 2021

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

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

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

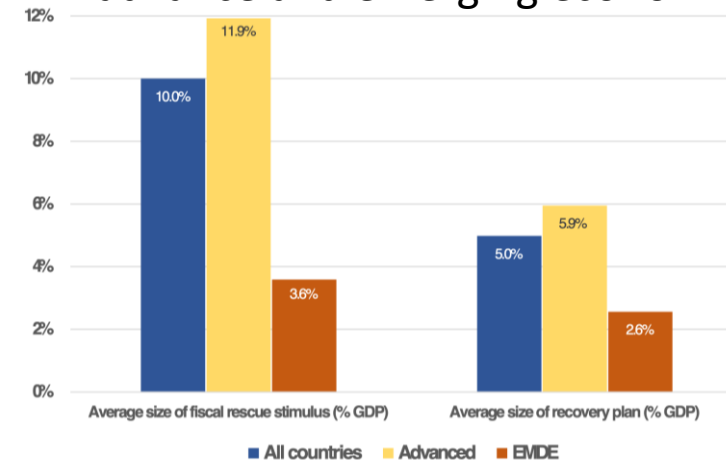
WE DO A GREEN RECOVERY SURVEY



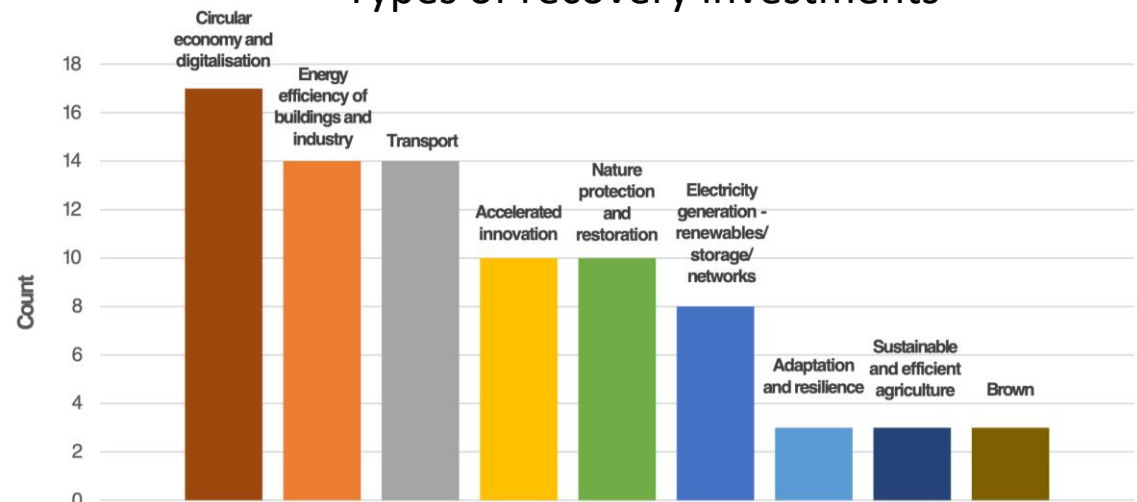
The results

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

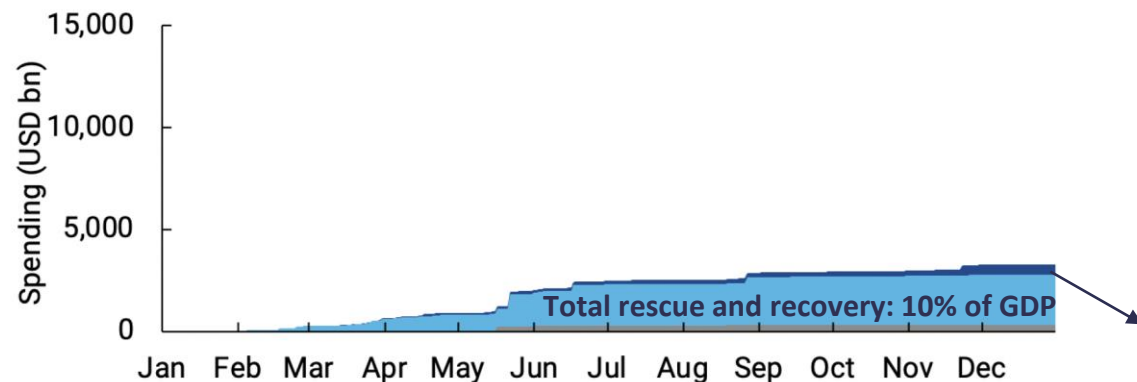


For example, if a county plans one or more green "Transport" investments it is ticked off against the "Transport" category, and then all the 'ticks' are counted across all surveys.

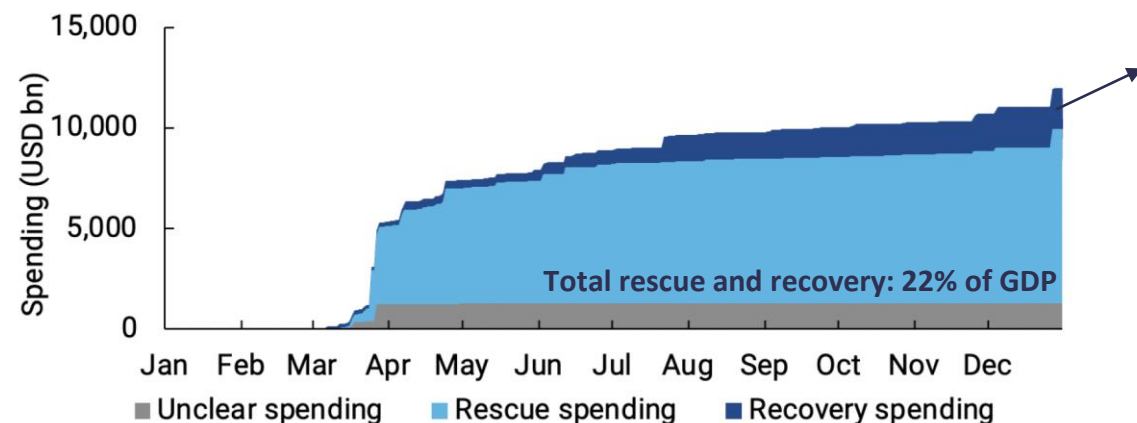
BETTER RECOVERY, BETTER WORLD 2.0: OXFORD TRACKER MARCH 2021

Panel A: Rescue and recovery spending

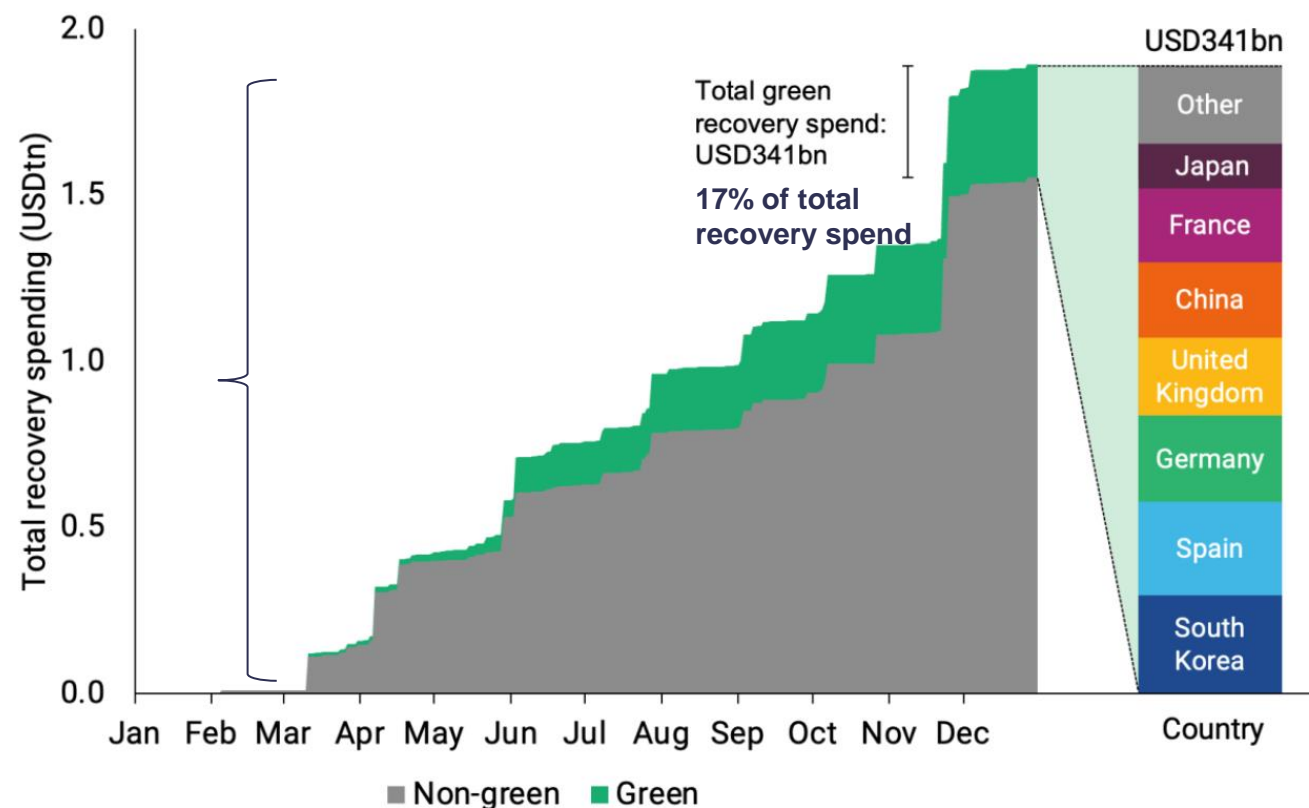
Emerging market and developing economies
(26 countries, representing 31tn in GDP)



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



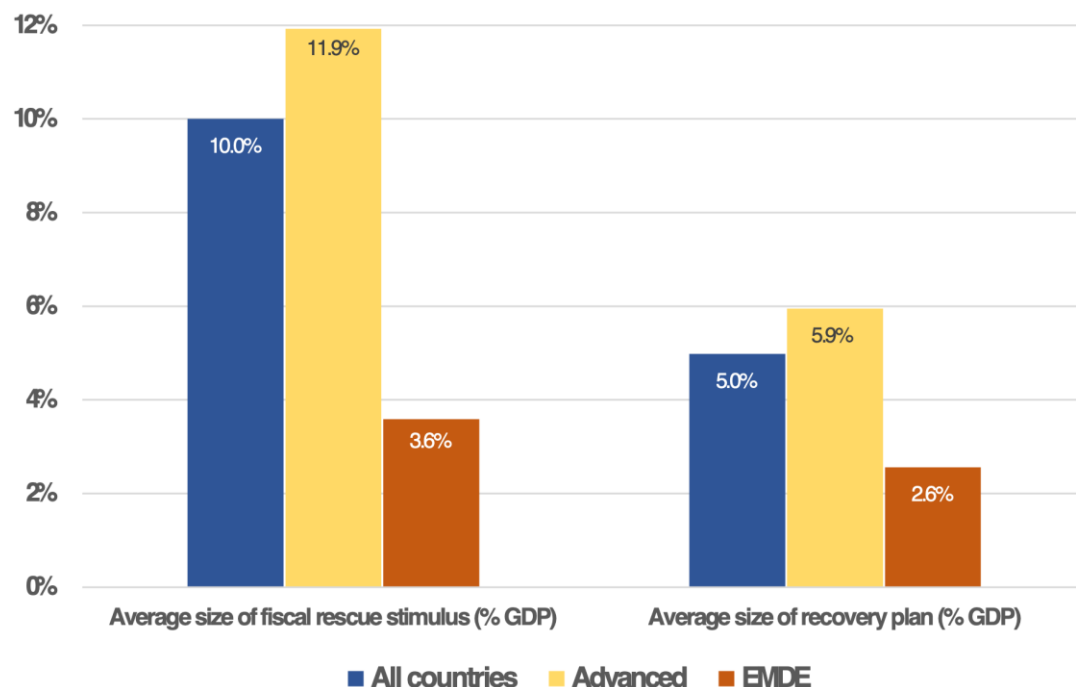
Panel B: Recovery spending and share of green



THE RESULT OF SURVEY

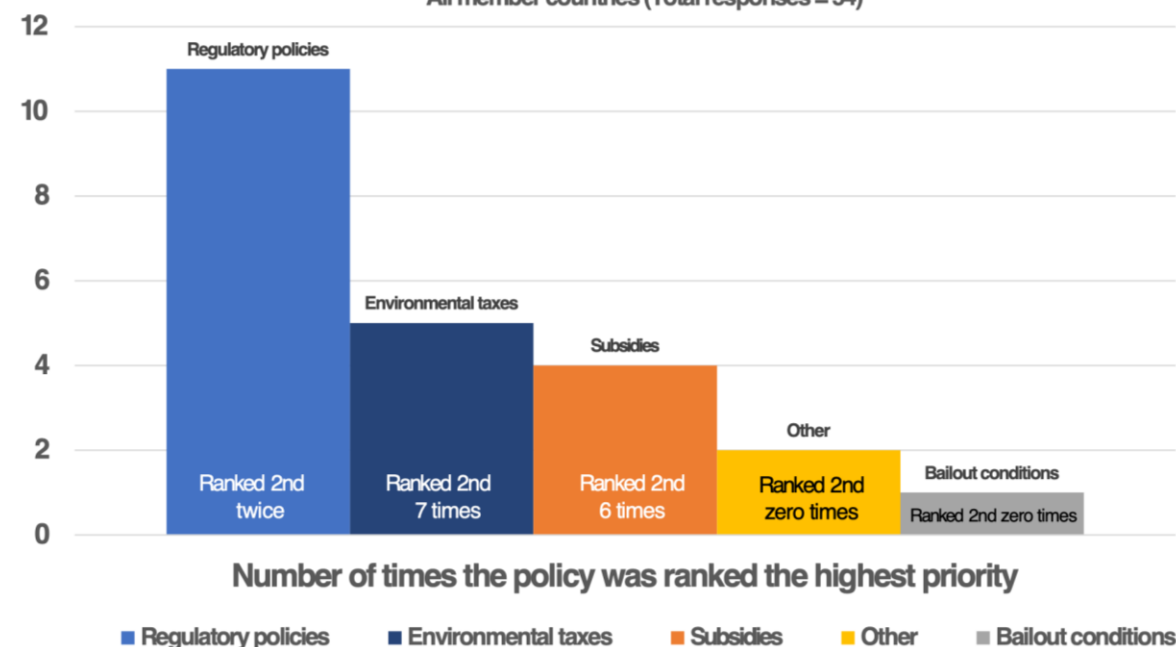
Rescue and recovery spending

Figure 2. Average size of rescue stimulus v recovery plan (% of GDP):
All countries, advanced and EMDEs.



Supporting policy reforms

Figure 7. The top structural policy reforms countries are considering to accompany their investment recovery plan:
All member countries (Total responses = 54)

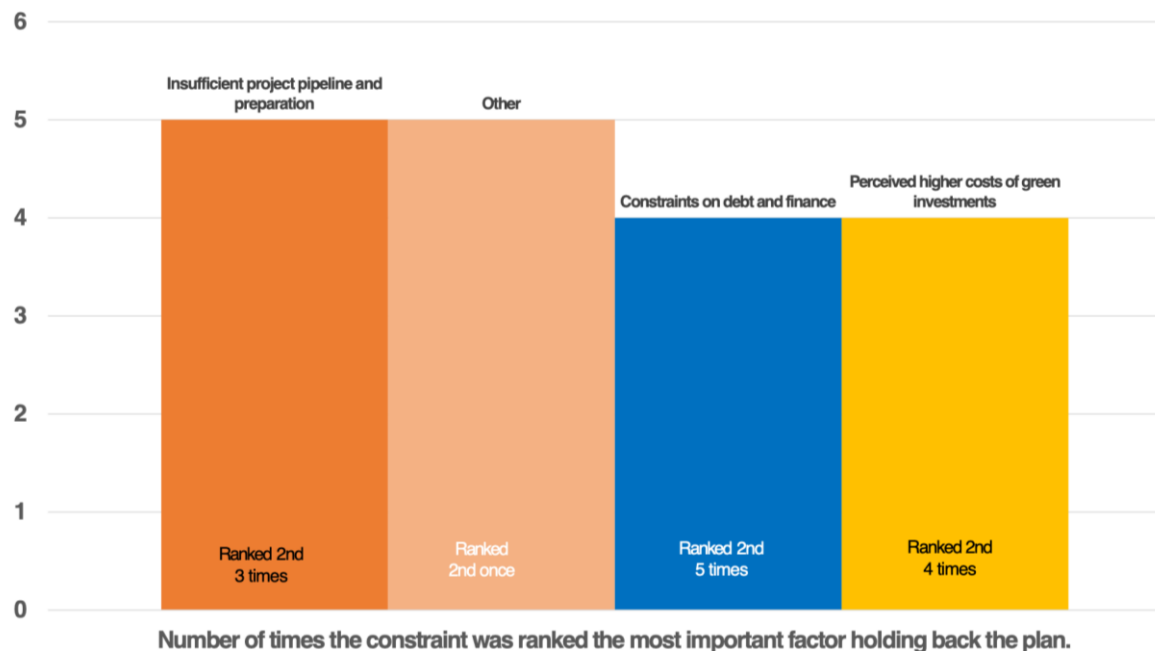


Advanced countries utilizes almost 17% of its GDP for rescue and recovery plan compared to only 7% of GDP of EMDE countries

INITIAL RESULT OF SURVEY

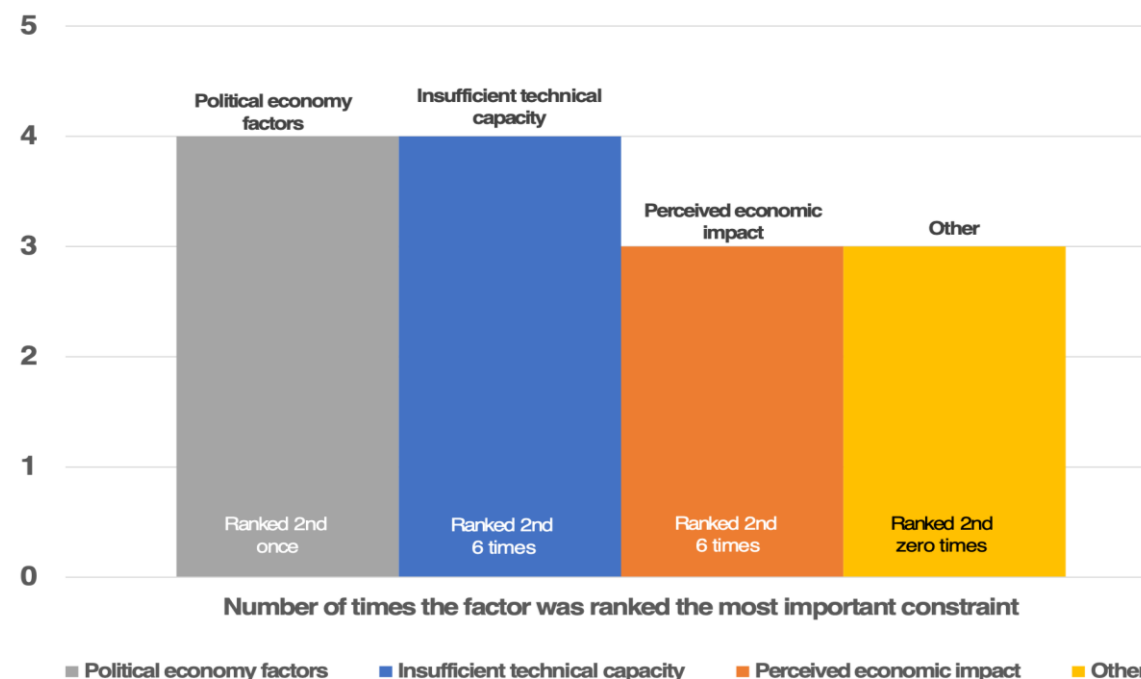
Investment constraints

Figure 6. Top constraints holding back investment-led recovery plans:
All member countries (Total responses = 49)



Policy constraints

Figure 8. The factors holding back the implementation of structural policies:
All member countries (Total responses = 32)

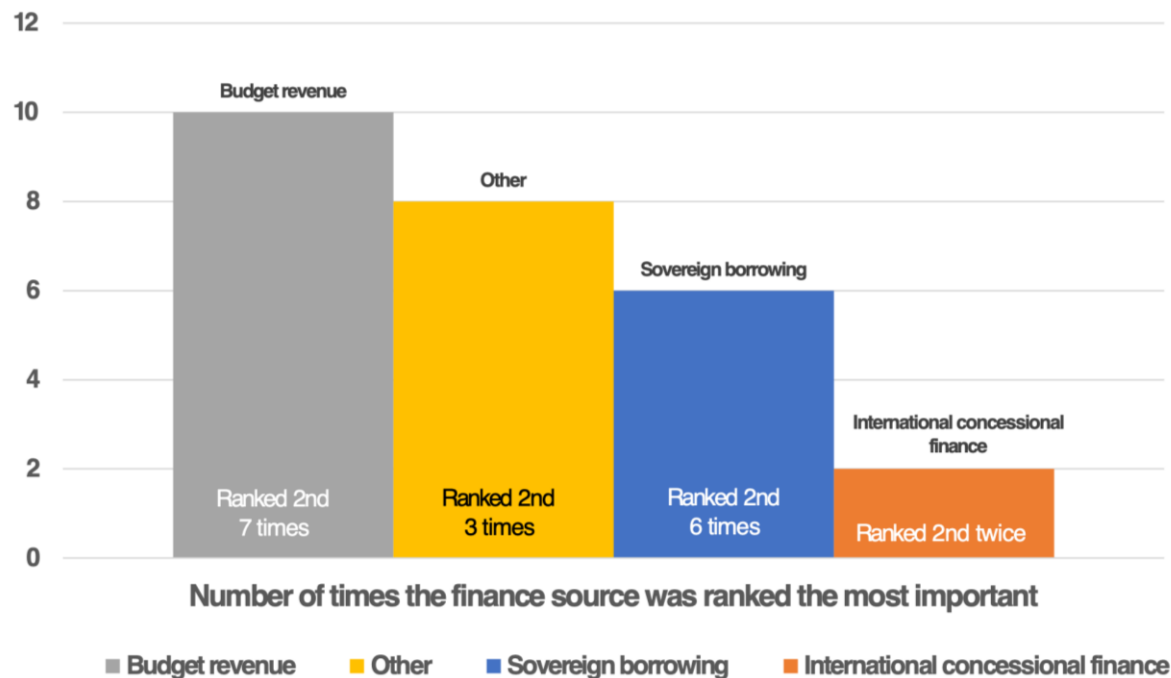


Identifying project pipeline remains of the top constraint for investment pre-COVID and during COVID-19, and countries' political economy situation remains as top policy constraints for GFP

INITIAL RESULT OF SURVEY

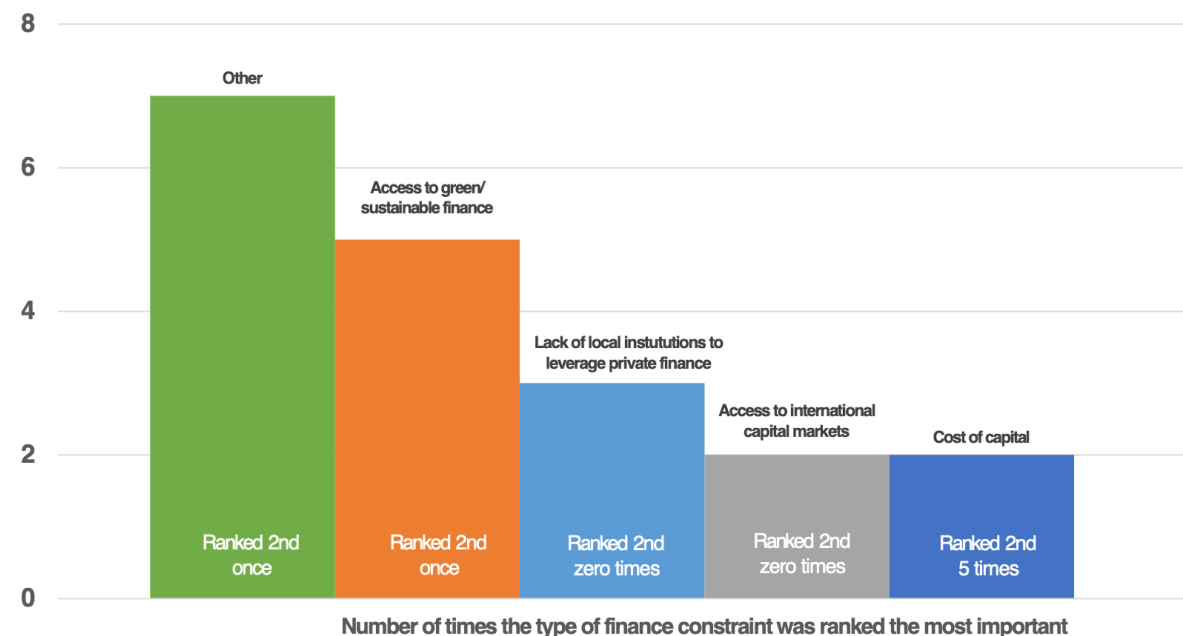
Finance sources

Figure 9. Most important types of finance for recovery plans:
All member countries (Total responses = 55)



Finance constraints

Figure 10. Most important constraints on financing (green) recovery plans:
All member countries (Total responses = 53)



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

GREEN FISCAL POLICIES

The Political Economy challenges of Green Fiscal Policies

Differences in the challenges faced by developed and developing countries:

- 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

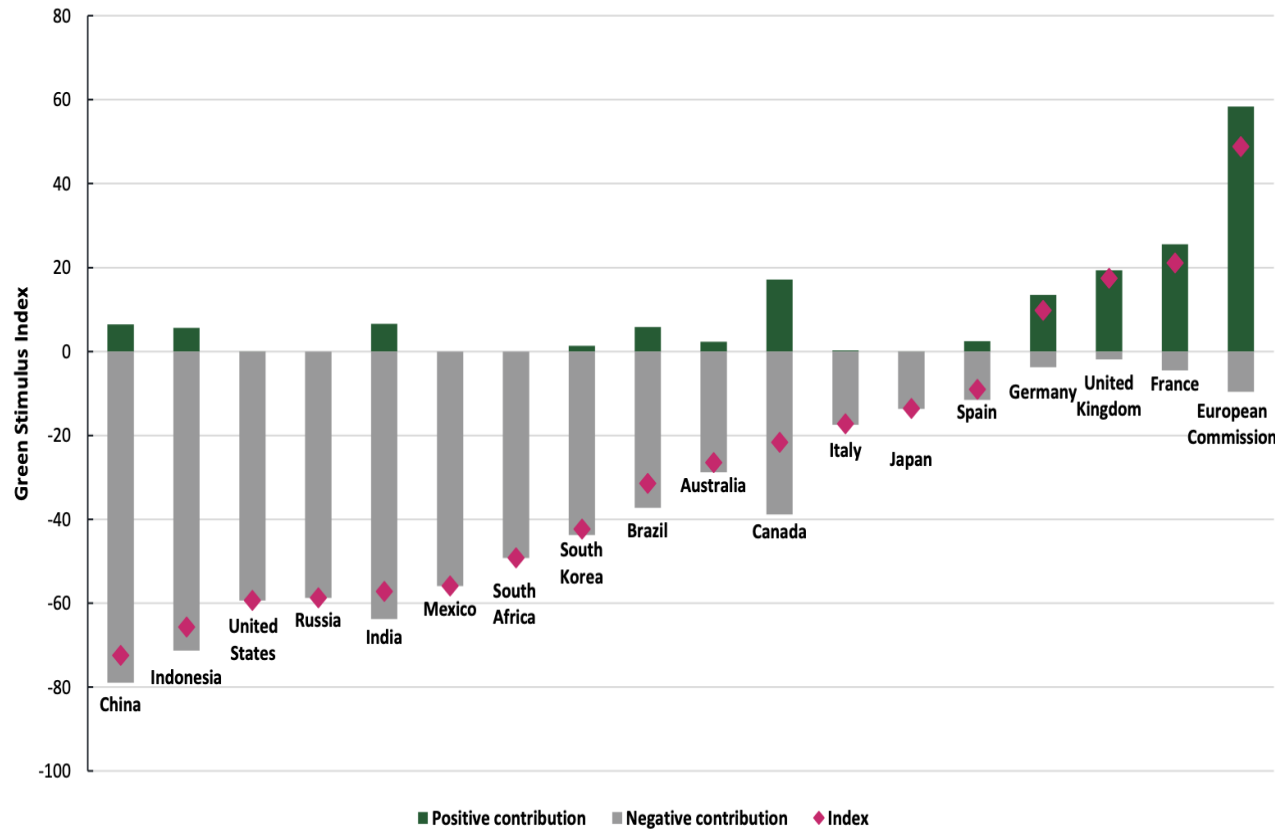
Ensure stimulus package takes a holistic perspective

Promote environmental taxes, regulations and bailout conditions to incentivize green economy

Green budgeting policies

Green budgeting policies are important to measure the success of GFP in both short term and long term

Figure 1: Green stimulus index



- 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

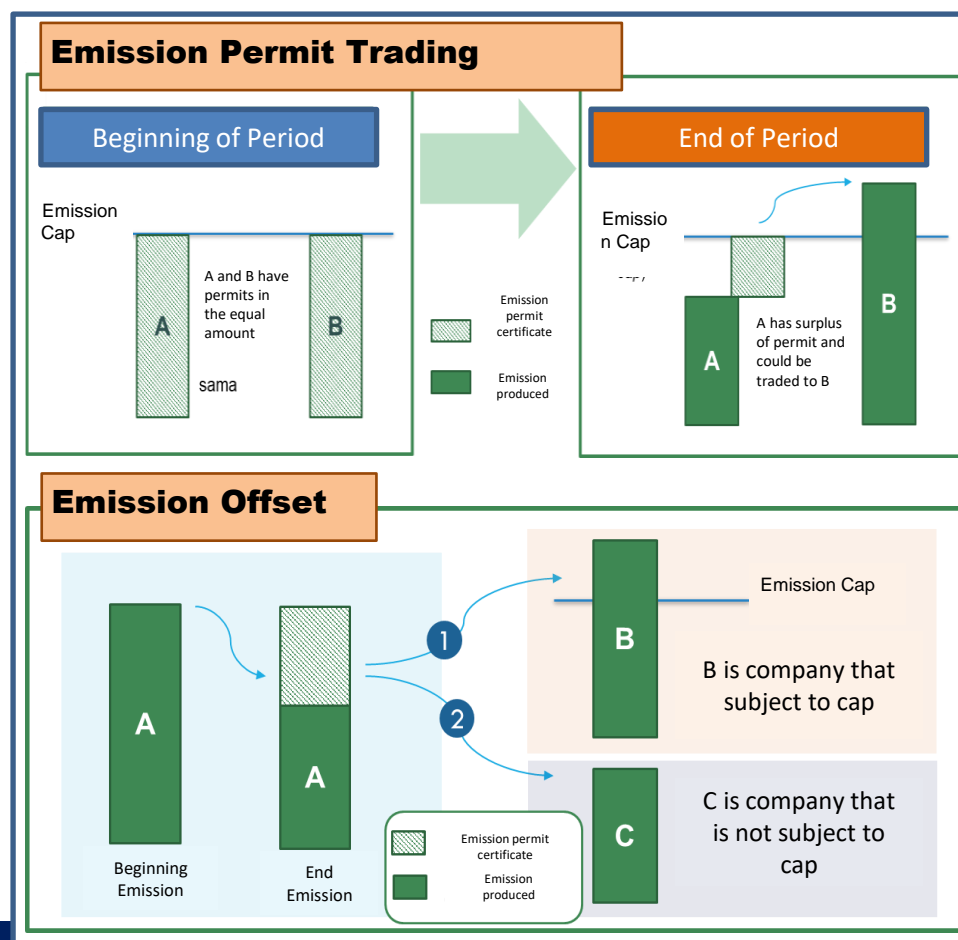
CARBON PRICING/ CARBON ECONOMIC VALUE



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.

CARBON PRICING IMPLEMENTATION CHALLENGES



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

1

2021:

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

2

2022:

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

3

2025:

- Full implementation of carbon trading through Carbon Exchange.
- Expansion of the carbon taxation sector in accordance with sector readiness
- Stipulation of Ministerial Decree concerning carbon tax governance in other sector.

Thank You!

