



Green Fiscal Policy Network (GFPN) regional workshop 14-15 September 2021

ROLE OF FISCAL POLICIES IN A GREEN COVID-19 RECOVERY: *Experience, Best Practice and Next Steps in the Asia-Pacific Region*

BACKGROUND

The impact of the Covid-19 pandemic thus far has been catastrophic. In Asia-Pacific, real GDP growth fell from 6% in 2019 to -1.5% in 2020 and unemployment and inequality surged, with job losses concentrated amongst low-income workers, particularly women and youth.¹ The informal sector was hardest hit, putting the livelihoods of many of the 1.3 billion informal workers in the region at risk.² The average debt to GDP ratio in emerging and middle-income Asia increased from 57% in 2019 to 70% in 2021, revenue fell by an average of 1.4%, while expenditure increased by 1.9%, causing a sharp increase in budget deficits.³ Tax relief has been an integral part of many fiscal stimulus packages, threatening to further reduce tax revenue.⁴

In theory, the crisis created an opportunity for policymakers to recalibrate existing policies and develop new, innovative strategies to mobilise revenue and drive a green, inclusive, low-carbon recovery. In practice, this opportunity has largely been missed. Continuing to pursue an unsustainable recovery will put the achievement of the Sustainable Development Goals (SDGs) and the UNFCCC Paris Agreement climate targets out of reach.

Green fiscal policies (GFPs) have enormous potential to foster a sustainable low-carbon recovery in the Asia-Pacific region, as they can mobilise domestic revenue while furthering environmental and climate goals. Many GFPs, particularly carbon-energy taxes, can be implemented rapidly, because collection mechanisms and administrative structures are already in place. GFPs deliver not only positive environmental and climate outcomes, but also social, fiscal, and economic co-benefits, including employment, greater fiscal efficiency, revenue, investment incentives, and innovation. So far, however, although GFPs are recognised as supporting synergies in policymaking in Asia-Pacific, few GFPs can be identified in the region's recovery packages.⁵

A key lesson from implementing GFPs in the wake of the 2008 financial crisis is that short-term fiscal stimulus alone is not sufficient to drive a sustainable and sustained economic recovery: there is also a need for complementary pricing reforms, such as reform of fossil fuel price regulations. Pricing carbon, resources and pollution is an important precondition for the public and private investment in low-carbon infrastructure and green technology required to drive a sustainable recovery.

In the light of this, this workshop will explore the potential role of GFPs in greening the Covid-19 recovery with the aim of supporting public health efforts, reducing environmental and climate change risks, and strengthening resilience to future crises by embedding inclusive and sustainable socio-economic considerations in national economic planning.

This is one of a series of workshops implemented by the Green Fiscal Policy Network (GFPN) with regional partners to raise awareness and promote policy dialogue on the potential of GFP to support countries in their efforts to foster a green recovery, achieve the SDGs, and meet their NDC targets. ESCAP promotes regional cooperation for inclusive and sustainable development, including in the areas of macroeconomic policy and financing⁶ and environment⁷ and supports countries to “build forward better”, including through GFPs.⁸

¹ <https://www.imf.org/en/Publications/REO/APAC/Issues/2020/10/21/regional-economic-outlook-apd>

² <https://www.undp.org/content/dam/undp/library/km-gap/UNDP-RBAP-Position-Note-Social-Economic-Impact-of-COVID-19-in-Asia-Pacific-2020.pdf>

³ <https://www.imf.org/external/datamapper/datasets/FM>

⁴ <https://www.adb.org/sites/default/files/publication/692111/ado2021-theme-chapter.pdf>

⁵ <https://www.unescap.org/sites/default/d8files/knowledge-products/UNESCAP%20Green%20Recovery%20Policy%20Brief.pdf>

⁶ <https://www.unescap.org/our-work/macro-economic-policy-financing-development>

⁷ <https://www.unescap.org/our-work/environment-development>

⁸ https://www.unescap.org/sites/default/d8files/knowledge-products/RC_Final%20Report.pdf



14/09/2021 – 13.00-14.00 BKK / 06.00-07.00 UTC / 60 minutes

SESSION ONE: THE ROLE OF GREEN FISCAL POLICIES IN THE RECOVERY: FINDINGS FROM THE GLOBAL RECOVERY OBSERVATORY AND THE UNESCAP 2021 SOCIO-ECONOMIC SURVEY

In 2020, global energy related GHG emissions fell by just under 6%⁹, roughly 2 percentage points less than the annual reduction required until 2030 to meet the 1.5°C Paris target.¹⁰ The imperative to put in place transformative measures to achieve deep decarbonisation remains.

If governments continue to drive the recovery through a return to business as usual, the climate targets of the Paris Agreement and the SDGs will be out of reach. There is a real danger that current recovery packages will lock in unsustainable investments and high-emissions economic structures. Although the crisis has opened up a window of opportunity to develop new, innovative strategies to achieve a green, inclusive, low-carbon recovery, progress has been slow.

This session will give participants unique insights into global progress, or lack of it, as identified by the newly launched Global Recovery Observatory and present the key findings of the UNESCAP socio-economic survey of the Asia-Pacific region.

Guiding questions:

- Of an estimated USD 2.25 trillion spent on recovery, just 21% or USD 0.46 trillion has been green¹¹. How can governments improve on the sustainability of their recovery spending going forward?
- What are best practice examples of recovery packages globally and in the Asia-Pacific region, and how much do GFPs feature?
- In what ways can GFPs within recovery packages deliver on short-term and long-term sustainable development priorities?
- What are the key obstacles and challenges to the implementation of GFPs in Asia-Pacific in the context of relief and recovery?

Speakers:

- Welcome and introduction: Kaveh Zahedi, Deputy Executive Secretary, UN ESCAP
- Welcome and introduction: Steven Stone, Chief of Resource and Markets Branch, UNEP
- Brian O’Callaghan, Smith School of Enterprise and the Environment, University of Oxford, *Are we really building back better? A global overview of the current state of play and some best practice examples of GFPs in recovery packages*
- Jiyoung Choi, Director of Green Climate Policy Division, Ministry of Economy and Finance, Republic of Korea, *South Korea’s Green New Deal*

Moderator: Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development, UN ESCAP

⁹ <https://www.iea.org/articles/global-energy-review-co2-emissions-in-2020>

¹⁰ UNEP estimates that GHG emissions must fall by 7.6% annually to 2030 to meet the 1.5°C target, see: <https://www.unenvironment.org/news-and-stories/press-release/cut-global-emissions-76-percent-every-year-next-decade-meet-15degc>

¹¹ <https://recovery.smithschool.ox.ac.uk/tracking/>



14/09/2021 – 15.00-16.30 BKK / 08.00 UTC-09.30 UTC / 90 minutes

SESSION 2: SUSTAINABLE PUBLIC FINANCING FOR A GREEN RECOVERY TO ACHIEVE THE SDGS AND THE PARIS AGREEMENT: GREEN BONDS AND GREEN BUDGETING

To achieve a resilient, inclusive, and sustainable recovery, it will be crucial to increase the efficiency and effectiveness of budgetary processes and monitor the extent to which spending is aligned with climate and broader environmental objectives through climate budgeting tagging, green public finance frameworks, public expenditure reviews, and related approaches. These analyses can pinpoint misalignments of spending and objectives, identify resources which could be re-directed to Covid-19 relief and recovery, and help to integrate sustainability considerations within long-term strategic and financial planning. Tagging environmentally harmful spending can open up further options for governments to apply their findings to budget management and alignment of recovery packages with environmental and climate objectives.

Green budgeting and related approaches can deliver important co-benefits, for example, Ministries of Finance can draw on the taxonomy used to demarcate sustainable expenditure as a basis for sovereign green bond issuance. Sovereign green bonds have become an important source of revenue for governments to finance their recoveries. Indonesia issued the world's first sovereign green Islamic bond, worth USD 2.5 billion, in June 2020. In the same year, ESCAP provided technical assistance to Bhutan in issuing its first ever sovereign bond and building capacity towards issuing a green bond.¹² Overall, 2020 was a record year, with green bond issuance accounting for USD 270 billion.¹³

This session will explore the opportunities and challenges associated with green budgeting and green bond issuance for countries in Asia-Pacific and present international best practice examples of their application.

Guiding questions:

- How can green budgeting practices help create fiscal space and mobilise additional resources?
- What are the key green budgeting tools countries can utilise during the conceptualisation and implementation of their green recovery plans?
- What role for sovereign green bonds during a time of high debt-to-GDP ratios? Are there possibilities for regional cooperation in green bond issuance, or synergies which countries can exploit to improve their green budgeting approaches?

Speakers:

- Delphine Moretti, PFM Regional Advisor South-East Asia, IMF, *Greening Public Financial Management*
- Jon Blondal and Margaux LeLong, OECD, *The Potential Contribution of Green Budgeting to a Green Recovery*
- Kirthisri Wijeweera, Advisor, Nature Performance Debt Instruments, Finance Sector Hub, UNDP, *The BIOFIN approach to green budgeting*
- Paola Alvarez, Assistant Secretary, Ministry of Finance of the Philippines, *Green budget tagging and green bonds in the Philippines, and activities within the Coalition of Finance Ministers on Climate Action*

Moderator: Delphine Moretti, Regional Advisor, South-East Asia, Fiscal Affairs Department, IMF

¹² <https://developmentfinance.un.org/sites/developmentfinance.un.org/files/files/policy-briefs/POLICY%20NOTE%20-%20Green%20Bond%20-%20ESCAP.pdf>

¹³ <https://www.climatebonds.net/2021/01/record-2695bn-green-issuance-2020-late-surge-sees-pandemic-year-pip-2019-total-3bn>



15/09/2021 – 10.00-11.30 BKK / 03.00 -04.30 UTC / 90 minutes

SESSION 3: ROUND TABLE DISCUSSION ON FISCAL POLICY AS AN ENABLER FOR SCALING UP PRIVATE INVESTMENT IN SUPPORT OF A GREEN RECOVERY

UNESCAP's *Economic and Social Survey of Asia and the Pacific* in 2019 found that countries in the region would need to invest USD 1.5 trillion annually to 2030 to achieve the Sustainable Development Goals.¹⁴ Successfully leveraging investment from the private sector will be essential to mobilise these funds. Many potential sources exist, including pension funds, insurance, sovereign wealth funds and Foreign Direct Investment.

However, the fact that private markets need an enabling environment and firm public finance foundations to exist and thrive is often overlooked. Pricing and regulatory incentives and institutional capacity reforms are key to creating and strengthening green and sustainable finance markets and scaling up financing for Agenda 2030 and higher ambition NDCs. The private sector makes investment decisions on the basis of the risk-return profile of investment opportunities, and the risk of investing in green and low-carbon technologies is often perceived to be high.

In part, these investment decisions are attributable to the persistent underpricing of fossil fuels in many countries, which continues to act as a deterrent to private investment in low-carbon technologies and renewable energy. Indeed, in many countries, the failure to price fossil fuels appropriately undermined the long-term effects of green stimulus in the wake of the 2008-9 financial crisis, and threatens to do so again in 2021.¹⁵

Guiding questions:

- How can carbon pricing and other GFPs mobilize green private investment?
- What role can GFPs play in creating an attractive investment climate for the private sector?
- Which models have been most successful in the region in attracting private sector finance for low-carbon development and the achievement of the SDGs?

Speakers:

- Carson Wen, Chairman Bank of Asia and Member of Executive Council ESCAP Sustainable Business Network
- Yuki Yasui, Asia Pacific Regional Co-ordinator, UNEP-FI
- Hitesh Kataria, Sustainability Expert on internal carbon pricing initiatives within companies

Moderator: Tiza Mafira, Associate Director, CPI Global

¹⁴ <https://www.unescap.org/publications/economic-and-social-survey-asia-and-pacific-2019-ambitions-beyond-growth>

¹⁵ <https://www.greengrowthknowledge.org/guidance/building-greener-recovery-lessons-great-recession>



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15/09/2021 – 12.00-13.30 BKK / 05.00 -06.30 UTC / 90 minutes

SESSION 4: THE POTENTIAL FOR FOSSIL FUEL SUBSIDY REFORM AND CARBON PRICING TO CONTRIBUTE TO BUILDING FORWARD BETTER

In Asia-Pacific, there is significant room for more ambitious action on carbon pricing and subsidy reform.¹⁶ However, Asia-Pacific is more reliant on fossil fuels than any other region in the world, and developments in its energy sector will determine whether the world can prevent planetary warming beyond dangerous levels. The region accounts for 76% of current global coal generation capacity and 94% of the global pipeline of coal-fired power plants under construction, threatening to lock in high GHG emissions until after 2040.¹⁷ This dependence is attributable to high demand growth in South and South-East Asia, a strong support for coal on the part of some governments, the presence of more than 60% of global coal reserves in the region, and in some countries, a high dependency on income from coal exports.¹⁸ Hence, special attention must be paid to the region's specific circumstances when considering how to reform subsidies or introduce carbon pricing.

In its *Building Forward Better* package, ESCAP recommends the elimination of fossil fuel price subsidies and the introduction of carbon pricing. Their simulation of a green development package, including a USD 40/tCO₂ carbon price and fuel price reform, predicts a 30% reduction in CO₂ emissions, a higher share of renewable electricity in the energy mix, less damage to infrastructure and fewer lives lost as a result of climate shocks, and a 5% reduction in the public debt ratio attributable to reduced expenditure on fuel price subsidies, carbon tax revenues, and stronger economic growth.¹⁹ The package predicts air quality improvements – a key co-benefit given that higher levels of air pollution have been linked to increased mortality rates from Covid-19.

This session will explore the potential role of carbon pricing and fossil fuel subsidy reform to contribute to a green recovery in Asia-Pacific countries and explore how to address typical implementation challenges.

Guiding questions:

- How can domestic revenue mobilisation through carbon pricing and fossil fuel subsidy reform support efforts to green the recovery from the Covid-19 crisis?
- How can political challenges and barriers to the implementation of carbon pricing and fossil fuel subsidy reform be overcome in the region?
- How can the revenue use component of policy design and its effective communication contribute to the sustainability and success of carbon pricing and subsidy reform in the region?

Speakers:

- Jens Radschinski, UNFCCC Regional Office, *Regional Dialogues on Carbon Pricing in Asia-Pacific*
- Aneta Nikolova, Environmental Affairs Officer, UN ESCAP, *Building Forward Better: Carbon pricing and green recovery*
- Aiman Yessekina, Director of the Department of Inventory, Republic of Kazakhstan, *Greenhouse gas emission Trading System in Kazakhstan*

Moderator: Katinka Weinberger, Chief, Environment and Development Policy Section, UN ESCAP

¹⁶ <https://www.unescap.org/resources/mpfd-policy-brief-no-107-raising-level-ambition-carbon-pricing-asia-and-pacific>

¹⁷ <https://www.unescap.org/sites/default/d8files/knowledge-products/Coal-Phase-Out-and-Energy-Transition-Pathways-25-Feb-2021.pdf>

¹⁸ <https://www.unescap.org/sites/default/d8files/knowledge-products/Coal-Phase-Out-and-Energy-Transition-Pathways-25-Feb-2021.pdf>

¹⁹ <https://www.unescap.org/sites/default/d8files/knowledge-products/UNESCAP%20Green%20Recovery%20Policy%20Brief.pdf>



15/09/2021 – 14.00-15.30 BKK / 07.00-08.30 UTC / 90 minutes

SESSION 5: THE POLITICAL ECONOMY OF GREEN FISCAL POLICIES IN THE CONTEXT OF GREEN RECOVERY

While the crisis has created an opportunity for the implementation of a range of GFPs, challenges to their implementation remain significant. Consequences of the pandemic may have heightened the perceived and actual risk of policy implementation: growing inequalities both within and between countries call for careful policy design to ensure that negative impacts are mitigated, while competitiveness concerns carry a great deal of weight in countries with an urgent focus on a bringing about a rapid economic recovery. Sound policy design, careful sequencing, targeted use of revenue, and clear and transparent communication will be necessary to navigate sensitive political economy challenges. In this regard, policymakers can build on over 300 economic and social measures introduced in Asia-Pacific in response to the pandemic to improve social safety nets and protect incomes.²⁰

Guiding questions:

- How can policymakers ensure that GFPs and green recovery packages are socially inclusive and minimise short-term negative effects, especially in the COVID-19 context?
- What can be done to increase public and political acceptance for GFPs and green recovery measures?
- What have global and regional experiences taught us about policy design, communication and sequencing?

Speakers:

- Jan Christophe Steckel, Head of Working Group on Climate and Development, Mercator Research Institute on Global Commons and Climate Change, *Equity impacts of carbon pricing in LMICs*
- Dudi Rulliyadi, Senior Policy Analyst in Fiscal Policy Agency, Ministry of Finance of Republic of Indonesia, *The Role of the Coalition of Finance Ministers for Climate Action in fostering fiscal policies for a green recovery*
- Asad Naqvi, Head of the PAGE Secretariat – the Partnership for Action on Green Economy

Moderator: Sweta Saxena, Chief, Macroeconomic Policy and Analysis Section, UN ESCAP

Closing remarks:

- Sandra Spies, Head of Section Environmental Policy, Biodiversity and Forests, GIZ
- Hamza Ali Malik, Director, Macroeconomic Policy and Financing for Development, UN ESCAP

²⁰ <https://www.unescap.org/sites/default/d8files/knowledge-products/UNESCAP%20Green%20Recovery%20Policy%20Brief.pdf>