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

15 September 2021
1. The Coalition Of Finance Ministers For Climate Action (Cfmca/Coalition) Overview

2. The Coalition continues its work in Green Recovery

3. Implementation Plan on Carbon Pricing – Indonesia
Role of CFMCA for fostering fiscal policies in green recovery
THE COALITION OF FINANCE MINISTERS FOR CLIMATE ACTION (CFMCA/COALITION) OVERVIEW

Milestone

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

 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.

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

Current Co-Chairs:

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

Secretariat:

- World Bank Group
- International Monetary Fund

2nd Ministerial Meeting: Member countries increased into 50 countries and agreed on Coalition Work Priority

3rd Ministerial Meeting was 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

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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.

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.
THE ROLE COALITION FOR FOSTERING FISCAL POLICIES IN GREEN RECOVERY

• HP1: Green Recovery report, Sitra has been working with HP1 on a 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. A series of training modules and initiatives will be proposed will be related to green budgeting, carbon pricing, taxonomies, and green bonds, modelling and Long-Term Strategies.

• 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
At the Fourth Ministerial Meeting (October 2020), the Coalition highlighted the importance of green recovery.

- COVID-19 recovery measures need to be analyzed to ensure that they do not conflict with existing climate targets. Institutional Partners will play a crucial role in providing the analytical basis for policy design and advice. Sherpas will be invited to take necessary follow-up measures and prepare further policy discussions.

This was followed with designing its work program for 2021, in which on green recovery:

- In early 2021, a stocktaking of measures and experiences among Members shall be carried out.
- The objective is to provide information and guidance to Ministers on actions taken to date to achieve green recovery, and to analyze the challenges of designing policy measures that support the transformation to low-carbon and climate-resilient economies in the short- and long-term.
- We aims to Launch a second report on green recovery policies as a follow-up to the “Better Recovery, Better World”
• The fifth Ministerial Meeting (April 2021) provides further guidance from Minister’ members:
  – Most economies were in the rescue phase that focuses on protecting jobs and citizens.
  – The recovery phase will provide opportunities for new sustainable growth, driven by innovation, investment and new activities.
  – A need to formulate fiscal policy recommendation for boosting economic growth while pursuing national and global climate objectives, taking into account that economies are affected very differently by the impacts of climate change and COVID-19 crises.

• Designing the second report on Green Recovery (soon to be launched):
  – It will draw upon survey results from members, to cover differences & inclusive.
  – New insights to be reflected from other ongoing work, including the Stern G7 report, the OECD, the Oxford tracker, the IMF and the World Bank – The main challenges are the scale and quality of investments.
  – The report under preparation by the Coalition will benefit from collaboration with HP3 (Carbon Pricing) and HP4 (Green budgeting).
Total rescue and recovery: 10% of GDP
Total rescue and recovery: 22% 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

• 50% response rate: 80% Advanced, 26% EMDE

• Size of rescue and recovery response: Advanced > EMDE

• No environmental policy relaxation during COVID: +

• Green investment categories consistent with Better Recovery, Better World 1.0

• Top design priorities: jobs and multipliers (and climate/nature for Advanced countries)

• Top supporting policy priorities: regulations

• All countries face constraints on doing a green recovery, but Advanced better able to overcome them.
THE RESULT OF SURVEY

Rescue and recovery spending

Supporting policy reforms

Investment constraints
THE RESULT OF SURVEY

Policy constraints

Finance sources

Finance constraints

Figure 8. The factors holding back the implementation of structural policies:
All member countries (Total responses = 30)

Number of times the factor was ranked the most important constraint:
- Financial economy factors
- Insufficient technical capacity
- Perceived economic impact
- Other

Figure 9. Most important types of finance for recovery plans:
All member countries (Total responses = 30)

Number of times the finance source was ranked the most important:
- Budget revenue
- Other
- Sovereign borrowing
- International concessional finance

Figure 10. Most important constraints on financing (green) recovery plans:
All member countries (Total responses = 30)

Number of times the type of finance constraint was ranked the most important:
- Access to grant sustainable finance
- Lack of credit institutions for green projects
- Access to international capital markets
- Corrupt capital
The Political Economy challenges of Green Fiscal Policies

• Generally all countries face challenges in creating long term sustainable investment with two fundamental challenges: 1. Countries are unable to transform concrete pipeline of projects due to its positive and negative externalities, 2. Ensuring that these financing projects applies to sustainability standards

• Yet, there are differences in the challenges faced by developed and developing countries: Developed countries face challenges in distributional impact while 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 (1)

• Engage for international support: World Bank, IFC, global NDC partnership, and global infrastructure facility. One example which has already been taken by Uzbekistan which engage IFC for World Bank Group's Scaling Solar program to help the government of Uzbekistan with the first competitively tendered solar power public-private partnership (PPP) in the country.

• Prioritize best in class projects that are timely and deliver multiple benefits to society using the Proposed Sustainability Checklist for Assessing Economic Recovery Interventions by World Bank.

• Focus on labour intensive short term projects and channel financing activities with local government and civil society.
Ensuring a socially inclusive GFP and to mitigate short term effects of GFP (2)

• Ensure stimulus package takes a holistic perspective: create synergies between emissions reduction and broader well-being objectives, such as reduced air pollution and improved health, and job creation: e.g collaboration of relevant ministries in Greece on planning and implementing their national energy and climate plan, including the clean energy transition, circular economy and waste management strategic plans.

• Promote environmental taxes, regulations and bailout conditions to incentivize green economy, with careful consideration the elasticity of response, timing, limitation of public alternatives to less carbon-intensive consumption behaviour, e.g. limited access to public transport. Promote complementary less carbon incentive in the short run e.g provide bikes lanes to reduce car ownership
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:
• 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)

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.

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.
Indonesia is one of the countries that is considering ETS & Carbon Tax implementation.
Thank You!