Dubai PAGE Conference Parallel Session Report on

Fiscal policy and finance– Investing in a green transition

1. Background

In the run-up to the United Nations Conference on Sustainable Development (Rio+20) in Rio in 2012, and since then, an increasing number of countries around the world have been developing green growth and green economy strategies, roadmaps and action plans to guide their development plans.

As countries are striving to drive their medium- and long-term development plans towards green growth and green economy pathways, the key question is how to finance the required investments. Fiscal policies, among others, could play a crucial role in stimulating such investments as they not only create the necessary fiscal space but also incentivise much needed private investment by putting a price tag on environmental externalities, inducing green technology innovation and promoting an efficient management of natural resources.

UNEP's work on fiscal policy for the green economy aims at identifying and analysing a broad range of fiscal policies that can help shift investment to resource efficient, environmentally friendly and socially inclusive economic activities. Concretely, this work focuses on policy guidance, knowledge generation and policy dialogue. In the first instance, UNEP supports countries through detailed analysis of their green fiscal policies. This support consists of fiscal scoping studies and policy papers in countries as varied as Ghana, Mozambique and Kenya. The studies analyse fiscal trends in countries and identify potential fiscal space for green economy initiatives, thereby supporting the transition to a more sustainable and inclusive economy.

Secondly, UNEP undertakes knowledge generation and dissemination activities in collaboration with other institutions through the Green Fiscal Policy Network and the Green Growth Knowledge Platform (GGKP). The former is a joint initiative involving GIZ, IMF and UNEP, with the participation of GSI. The Network aims to create a body of knowledge on fiscal policy reforms for the green economy through preparing analytical studies and policy dialogues. GGKP is a partnership of GGGI, UNEP, the World Bank and OECD. It was established in 2012 to harness the research and policy expertise of a global network of international organizations and experts in order to identify and address major knowledge gaps in green growth theory and practice. Fiscal instruments is one of the four research areas under GGKP.

The third main aspect of UNEP's green fiscal policy work is about facilitating policy dialogues and the exchange of country experiences.

2. Content of the Session

This session entitled "Fiscal policy and finance – Investing in a green transition" discussed the key role of fiscal policy as an enabler of the transition towards a green economy. It identified examples, good practices and experiences on how fiscal policy and investments can support green economy. The session also identified key actors and policy options to scale-up knowledge sharing and to advance action for making fiscal and finance policy a driver of green economy on the national and international level.

Co-chairs of the session were the Minister for Sustainable Development, Environment and Climate Change, Republic of Malta, H.E. Mr. Leo Brincat and Mr. Charles Anderson, Head, UNEP Finance Initiative. Speakers included Mr. Gerhard Fourie, Chief Director, Green Industries, Department of Trade and Industry, South Africa, and Ms. Karin Ireton, Head, Sustainability Management, Standard Bank, South Africa. Panelists of the session were Mr. Rae Kwong Chung, Director, UN Economic and Social Commission for Asia and the Pacific, Mr. Kwabena Boadu Oku-Afari, CEO/Director, Real Sector Division, Ministry of Finance, Ghana, Ms. Nancy Martasuta, Vice President, Bank Negara Indonesia and Mr. Nick Robins, Co-Director, Inquiry into the Design of a Sustainable Financial System, UNEP.

H.E. Mr. Leo Brincat provided the conceptual framework of the session, emphasizing that yesterday's solutions are not applicable to today's problems and innovative financial instruments will be required to stimulate investments and enable the transition to a Green Economy. Minister Brincat also highlighted the importance of creating positive incentives for the private sector and asserted that green economy is not a path reserved only for developed countries, pointing out that fiscal and finance policies are able to also stir green transition in developing countries.

Mr. Gerhard Fourie, Chief Director, Green Industries, Department of Trade and Industry, South Africa and Ms. Karin Ireton, Head, Sustainability Management, Standard Bank, South Africa presented South Africa's experience in using public policies to stimulate private investments in the Renewable Energy sector. Mr. Rae Kwong Chung outlined the importance of setting up policies which give a positive, credible and long-term signal to the business, while also taking into account social considerations. Mr. Kwabena Boadu Oku-Afari presented Ghana's challenges with regard to the removal of fuel subsidies, while Ms. Nancy Martasuta provided a good practice example of how government and bank institutions are working together in Indonesia to create sustainable banking regulations. Mr. Nick Robins gave an example of how environmental taxation is yielding triple bottom line benefits and contributing to sustainable development in British Columbia.

Following the statements of the panelists, the moderator Charles Anderson led the discussion on the identification of key actors and policies as well as opportunities for knowledge sharing to make fiscal policy, finance and investments more sustainable. At the end of the session H.E. Minister Brincat provided a brief summary of the discussions.

3. Good Practices, Insights and Lessons Learned

State-of-the-art knowledge and good-practice examples

- South Africa provides a good example for identifying the right incentives for investors. As presented by Gerhard Fourie (Chief Director, Green Industries, Department of Trade and Industry, South Africa) and Karin Ireton (Head, Sustainability Management, Standard Bank, South Africa) the new Renewable Energy Public Procurement mechanism, managed by the Ministry of Finance in South Africa is already yielding very good results. The initiatives consists of investors competing (via a bidding process) for the rights (i.e. purchase agreements) to submit energy to the national grid. Three rounds of biddings have already taken place. The auctions have attracted considerable competition from international developers for every MW of capacity and every technology offered, even though the ceiling price for bids has been lower than the tariff rates proposed under the abandoned feed-in tariff. The submitted business plans are judged also on their development aspect, including job creation potential. As success factors for the new initiative are deemed the clear and transparent bidding process created and managed by the Ministry of Finance, the comprehensive market research informing the initiative, as well as the leading role reserved to market agents (who have a clear incentive to develop feasible business plans and to deliver on them once they have won the bidding). For more information, please visit: http://www.ipprenewables.co.za/

- An example of how environmental taxation can lead to triple bottom line benefits presents the British Columbia carbon tax and accompanying tax shift, in place since 2008. It is a policy, which adds additional carbon taxes to fossil fuels burned for transportation, home heating, and electricity, and reduces personal income taxes and corporate taxes by a roughly equal amount. The carbon tax is collected at the point of retail consumption (for example, at the pump for gasoline and diesel). The carbon tax in British Columbia, achieves triple bottom line benefits: it resulted in:
  - A fiscal bounce, hence mobilized capital to invest in Green Economy;
  - Reduced fuel use, hence reduced emissions; and,
  - Reduced income tax rates, hence increased public support.

  More information on the carbon tax in British Columbia can be found here: http://www.fin.gov.bc.ca/tbs/tp/climate/carbon_tax.htm

- Indonesia has had some success in reforming energy subsidies, by providing economic incentives for the poor. Indonesia's fuel subsidies were put in place to make energy more affordable, particularly for poor people. However, overwhelming evidence suggests that most of the subsidies benefits the well-off. In 2005 and 2008 the Indonesian government used a cash transfer assistance program (Bantuan Langsung Tunai - BLT) to reduce opposition to fuel price increases and help poor families cope with higher energy costs. The cash-transfers were reasonably successful in assisting poor households and reducing opposition to fuel price increases. However, there were also problems: social unrests ensued from the misappropriation of some of the payments. Any future implementation of the cash transfer programme would need to take into account lessons learned from previous experiences, such as the need for better targeting, stronger oversight and greater support for village officials. For more information please visit:
https://www.kdevelopedia.org/mnt/idas/asset/2013/11/14/DOC/PDF/04201311140129007072935.pdf

- Indonesian banking regulators are currently designing, with the input of the banking industry, sustainable banking regulations, which will require banks to incorporate meaningful environmental impact assessments in their credit decisions. This new "Green Banking" regulation will ensure that new commercial activity financed by the banks incorporates environmental and social considerations.

- The experience of Ghana of introducing a fuel subsidy reform showed that this is a complicated process which can evoke strong public opposition. Fuel subsidies in Ghana are not very efficient in protecting the income of the poor and mostly benefited the middle class. Effective and targeted communications are critical for building a public case for fossil-fuel subsidy reform. In Ghana s subsidies have been removed for LPG and steps have been undertaken to remove the subsidies for gasoline as well. Necessary percussions are being taken to protect the poorest, e.g. through social cash transfer programmes such as LEAP ("Livelihoods Empowerment Against Poverty" – funding amounted to USD 4m in 2012 to USD 15m in 2013).

Identified key actors and policies that make fiscal policies and investment a driver of an inclusive green economy

- In all good practices presented, the private sector, governmental sector, and civil society were working together (e.g. in Indonesia the banking sector collaborated with banking regulators to formulate regulations for sustainable banking, and in South Africa, the private sector experience fed into the policy-making process on renewable energy).

- Different government ministries should work together and enhance the communication between each other if fiscal policies are to be designed and implemented in an effective manner.

- Critical for success is the establishment of clear and transparent rules, with which governments provide credible and reliable long-term programmes that reduce uncertainties and risks for green private sector investments.

- While participants highlighted that positive incentives are crucial for the GE initiative to succeed (carrots rather than sticks), these alone will not move the market with sufficient speed and volume.

- Participants in the panel also emphasized that it is the “actions on the ground” that lead to the implementation of the necessary fiscal policies in practice, thus pointing to the important role of local governments and grassroots agents.

Opportunities for Knowledge Sharing and Learning

- Awareness raising and education are key to behavioural change. Successfully implemented fiscal policies rely on social acceptance and support by the business communities and the general public.

- There is a need for capacity building on how to create successful fiscal reforms and stimulate investments for the transition towards sustainable green economy. Capacity building efforts should be concentrated on a number of levels, encompassing government officials, financial institutions, the private sector, and the general public.

- A number of initiatives and institutions contributing to knowledge generation in the area of sustainable fiscal planning already exist. Consideration should be given as to how these efforts can be consolidated. This is an area where PAGE, as a partnership engaging countries and institutions from all over the world and consolidating the UN actions and expertise on Green Economy, can play a major role.

4. Key Take Home Points/Recommendation

- In order to make fiscal policies a successful tool to generate the necessary investment for a green economy transition, the market needs to receive the right signals and political commitment and leadership need to be ensured.

- The longer-term ecological cycle is not best served by the short-term political and business-planning cycle.

- The biggest positive changes seen in markets are those that are policy-driven, but even then the aggregate change is often short of what is needed to support a green economy transition. While positive incentives are crucial, these alone will not move the market with sufficient speed and volume. Hence, there is a need for policy drivers to enable the market, so it can help drive the transition.

- Critical success factors include the establishment of clear rules by government, which provide credible and reliable long-term programmes that reduce uncertainties and risks for green private sector investments, and a long-term vision and political commitment, along with enhanced collaboration among different government ministries, to support a national shift towards a green economy.

5. Key Resources

- *Driving a Green Economy through Public Finance and Fiscal Policy Reform*
  http://www.unep.org/greeneconomy/Portals/88/documents/ger/GER_Working_Paper_Public_Finance.pdf

- *Green Economy Briefing Paper: Fiscal Policy* -
  http://www.unep.org/greeneconomy/Portals/88/documents/news/Issue%20Briefs/fiscal%20policy%20brief_EN_final.pdf

- *Green Economy Briefing Paper: Finance* -
  http://www.unep.org/greeneconomy/Portals/88/documents/GE_FINANCE%202juin.pdf

- *Financing Renewable Energy in Developing Countries: Drivers and Barriers for Private Finance in Sub-Saharan Africa*
  http://www.unepfi.org/fileadmin/documents/Financing_Renewable_Energy_in_subSaharan_Africa_02.pdf