



G20 INDONESIA 2022

Forum on
International
Policy Levers
for Sustainable
Investment

13 June 2022



G20 Presidency Summary



Introduction

The forum on international policy levers for sustainable investment was hosted by the G20 Indonesia Presidency, on 13 June 2022 in Bali, Indonesia. The forum discussed a range of policy levers that can incentivize or create an enabling environment for sustainable finance and increase investment that support an orderly, just and affordable transition towards low-greenhouse gas emissions and a climate-resilient economy to achieve the goals of the Paris Agreement, with due considerations for national circumstances.

In introductory comments, Mr. Febrio Kacaribu (Head of Fiscal Policy Agency, Ministry of Finance, Indonesia), representing the G20 Presidency, opened the meeting by reminding the participants that the G20 finance ministers and central bank governors have reaffirmed the crucial role of public policy levers in addressing market externalities, reducing the cost of low carbon technologies and incentivizing the participation of private capital in sustainable investment, and in the meantime, supporting orderly, just and affordable transition. He stressed that strategy for energy transition is the heart of economic transformation and that the G20 should work towards ensuring that nations can continue to develop during the transition to a low carbon economy. He further recognized that the urgency of the energy transition has become more apparent with the recent energy crisis.

Presentations from International Organizations

During the keynote speech, Mr. Brian Motherway from the International Energy Agency (IEA) focused on the pathways to achieve net-zero emissions by 2050 and on people-centered clean energy transitions, and Mr. Alain de Serres from OECD provided an overview of the full range of climate mitigation policies being implemented by jurisdictions and on efforts to better understand their effectiveness in reducing emissions. Mr. Motherway recalled the IEA roadmap for 2050, which suggests that the emerging and developing economies should increase their spending on clean energy



and raise the ratio of clean energy from the current 20% to 35% by 2030 and 50% by 2050. While increased investment is essential, people-centered sustainable energy transition is equally important, focusing on inclusiveness, gender equality, social equity and protection. Mr. de Serres discussed the OECD's work to map and analyze the full range of policy measures to tackle emissions, including both price- and non-price-based mechanisms, as well as broader policy tools that were not focused on climate but nevertheless could contribute to emissions reductions. He further underscored the importance of a coordinated and comprehensive set of instruments to make meaningful progress towards net zero target. He emphasized that each jurisdiction should tailor its policy mix towards its emissions profile and national circumstances, while highlighting the benefits of international coordination to mitigate the risks of unintended economic spillovers or distributional impacts. He presented the OECD proposal for an Inclusive Forum on Carbon Mitigation Approaches approved by OECD members in June with two main goals: to conduct a comprehensive stocktaking of climate mitigation policies and to develop a methodology to assess the effectiveness of different policies to meet emission reduction commitments.

Session 1. Considerations for structuring effective emissions pricing mechanisms and tools that support the transition towards low-carbon economies

An increasing number of countries are adopting, or considering adopting, carbon pricing mechanisms to help meet climate objectives, including through a carbon tax, Emission Trading System (ETS), crediting mechanisms, results-based climate finance. Different approaches to price emissions can result in a wide variation between the resultant scopes and prices, including implications for cross-border spillover effects as some jurisdictions are exploring the use of carbon border adjustment mechanisms. Revenue use from carbon pricing is also an essential aspect of policy design, and participants discussed the considerations behind their approaches to address socioeconomic consequences, green spending, or general revenue management.



Members from Canada, Denmark, and the EU presented case studies on the respective carbon pricing instruments being used in their jurisdictions.

During the discussion, members broadly concurred on the importance of carbon pricing mechanisms as a cost-effective method to reduce emissions. However, members thought that assessing the cost-effectiveness of one pricing mechanism vs. the others or pricing mechanism vs. non-pricing mechanism depends on several assumptions; hence, country or sector specific assessments are important for each jurisdiction to consider when developing an appropriate policy mix. In terms of price vs. emissions certainty, a case study alluded that having price certainty has helped increase the acceptance of the carbon pricing, mainly to do with the assurance of carbon dividend payment that comes with price certainty. Other case studies underscored that effectiveness of various policy measures are different across countries and jurisdictions. For example, in a case study, the ETS shown to be the most effective carbon pricing policy, while in another cause, it is the cap and tax method. Members were also interested in discussions about methods to increase the visibility of dividends distributed to households from the revenues of carbon pricing schemes as a strategy to increase public support for pricing mechanisms. Several members also expressed the need to better understand the international impacts of carbon border adjustment mechanisms, especially on emerging markets, and how these proposals could influence climate policy choices.

Session 2. Non-pricing tools that support low-carbon climate transition

Non-pricing policy tools and mechanisms can also significantly reduce greenhouse gas emissions and facilitate private sector sustainable finance and investment. Such tools could include fiscal subsidies for green projects, green finance incentives (e.g., subsidies for green verification and low-cost funding from the central bank), sectoral policies and regulations (e.g., policies to encourage the use of renewable energies and/or decommission existing coal-fired plants, electric



vehicles, and green buildings), environmental and pollution control regulations, and green government procurement policies. Participants discussed lessons learned in the design and implementation of non-pricing policy measures and the challenges countries faced in designing or implementing such policy mixes, including managing the synergies with pricing tools and addressing these aspects in the context of a just transition.

Members from China, Egypt, South Korea, and the United States presented case studies on their jurisdictions' non-pricing climate policy instruments.

During the following discussion, members acknowledged that non-pricing tools could play a critical role to reduce emissions in countries where typical pricing instruments are difficult to implement due to domestic political or other considerations. Several members, however, expressed the need to better understand the effectiveness of non-pricing tools comparable to pricing tools, which could include developing methodologies that would identify appropriate metrics that could serve as inputs to macro-economic models. They agreed that assessing how efficient non-pricing policy instruments are compared to pricing tools such as carbon pricing and whether non-pricing instruments could put undue cost pressure on taxpayers is essential. Lastly, Members reiterated the importance of interagency coordination for implementing the wide range of policy tools and levers discussed.

Session 3. Policies for financing sustainable energy transition and for bridging the gaps in the financing of transformative technologies

Mr. Harris Munandar, Director of International Department, Bank of Indonesia, recalled at the opening speech that this forum is anchored in Action 16 of the G20 Sustainable Finance Roadmap, which asked the G20 and other entities to analyze the implications of public policy levers on market signals that could influence sustainable investment decisions. He encouraged members to consider both pros and



cons of pricing and non-pricing approaches and use them as inputs for analyzing appropriate public policies in their respective jurisdictions.

Mr. Navid Hanif, Assistant Secretary-General for Economic Development in the Department of Economic and Social Affairs (DESA) at the United Nations, gave a keynote speech on taxation and Sustainable Development Goals (SDGs) and stated that an adaptive tax policy, as a policy lever, can support orderly, just and affordable transition, taking into account country-specific contexts and nationally defined development priorities.

Representatives from Argentina, Germany, Indonesia, and Rwanda discussed policies designed to support the financing of the energy transition and policy measures/regulatory environment that can be developed to bridge financing gaps and better incentivize investment that supports transition activities.

During the discussion, members also highlighted the importance of technological innovation in supporting the energy transition. Some member further opined that such innovation is as essential to developing countries and smaller companies as to developed and more prominent ones. Therefore, the central banks, ministries of finance, and development banks should have their apertures open enough to identify emerging and affordable technological innovations that could be transformative.

Session 4. Understanding distributional implications of public policy levers that aim at mobilizing finance for the transition

With its transformative structural changes in the environmental and energy landscape, the transition towards a low-carbon economy could bring potential distributional implications, including employment and income risk. Understanding these socioeconomic impacts would be crucial for designing just and effective policy levers and thus their acceptance in society.



Mr. James Roaf from International Monetary Fund gave a keynote speech on the potential for adverse spillover effects from carbon pricing mechanisms and how these could be mitigated. One effect is the potential increase in energy prices and their distribution across society, which can be addressed by providing income support to low-income households financed by revenues generated by carbon pricing mechanisms. Another potential effect is economic distortions created by new taxes. If carbon revenues are used to reduce other distortionary taxation, such as the tax on labor income, the two could balance each other out. A third effect is employment that depends on the fossil fuel industry, especially coal communities. Carbon revenues can compensate these workers and provide funding for alternative employment and education opportunities. A fourth effect is the competitiveness impact it could have on the firms that compete internationally and environmental concerns about carbon leakage. These could be addressed by implementing measures that either reduce costs for domestic industries, such as free allowances under an ETS, or the increased cost for foreign producers, as in the EU CBAM proposal. The IMF stressed that since CBAM still faces challenges from the point of view of achieving climate goals as it applies carbon pricing only to goods involved in international trade, a global agreement on carbon pricing could be sought.

Representatives from Brazil and the United Kingdom further discussed the distributional impacts of public policy levers.

During the discussion, members reiterated the importance of addressing social and economic implications of policy levers towards supporting energy transition and agreed on the reality that unless such implications are adequately addressed, implementation of proposed policy levers will not pick speed. Germany representative also talked about the possibility to establish an international Climate Club with interested countries to increase global climate ambition and potentially address concerns about distributional impacts of climate policies, while acknowledging many questions on the ultimate design of such a club were still being considered.



Closing Remarks

SFWG co-chairs gave an overview of key messages from the four sessions. They grouped the policy levers discussed in those sessions under two types – those having direct and indirect impacts on sustainable finance investment decisions. The first two instruments (pricing and non-pricing) directly impact the availability of financing or cost of financing for sustainable projects. Financial instruments and markets are central to transmitting such policy instruments through projects or companies. The tools that have an indirect impact work indirectly through the system but affect the mobilization of finance by changing the revenue, cost, profitability, and bankability of projects but not necessarily working through the financial institutions. These interventions work through the companies rather than financial institutions or systems.

The SFWG co-chairs also identified three significant challenges in allocating policy incentives to influence investment decisions. The first challenge is the information asymmetry problem, which, if not appropriately managed, will lead to greenwashing. The government incentives to promote sustainable investment can entice some project owners to pretend they are green.

The second challenge raised by the SFWG co-chairs is enhancing coordination between finance regulators and other government ministries or bodies given there is a need to coordinate among all relevant policy actors. Although central banks must understand and evaluate the effects of climate policy choices, most do not have fiscal tools, sectoral regulatory functions, or power over environmental information disclosure requirements. To address this challenge, several G20 members as well as the SFWG co-chairs noted that a consortium of relevant ministries or agencies is required for effective implementation and selection of policy levers, including to embed incentives into green finance policies and regulations.



The third challenge highlighted by the SFWG co-chairs is associated with ensuring the cost-effectiveness of policy incentives. The cost-effectiveness of such incentives can be different in different countries. The co-chairs suggested that more analytical work is needed to develop the price equivalency of non-pricing policy instruments.

The co-chairs also underscored that policy measures are an essential complement to voluntary steps taken by the private sector and individuals. Voluntary standards will be a critical aspect of SFWG's work well into the future. However, they are insufficient in themselves. Entities adopting voluntary standards often look to governments to provide coherent and predictable policy environments to spur additional efforts where their voluntary efforts are inadequate.

The co-chairs made a closing remark by saying that although a few policy levers have already shown their value and pay dividends, the work on policy measures is still evolving; hence, the SFWG should continue to work on policy measures and policy levers. Co-chairs reiterated that it was not the intent of the SFWG to supersede other international platforms where broader climate policy decisions are discussed, but to remain focused on its mandate of considering climate policies in the context of scaling up sustainable finance to support the climate transition.

Ms. Dian Lestari, Director of Indonesia Ministry of Finance Center for Climate Finance and Multilateral Policy, representing the Indonesian Presidency, closed the meeting by underlining the importance of optimizing policy benefits while minimizing policy's economic and social impacts. The Presidency thanked all delegates and expressed a commitment to ensure collective actions and deliver concrete deliverables in the SFWG to achieve the 2030 Agenda for Sustainable Development Goals and the Paris Agreement.