

# Climate Action Peer Exchange for Finance Ministries



# Key Questions for Finance Ministries

- 1 How do I promote environmentally sustainable growth while maintaining fiscal and debt sustainability?
- 2 How much of current public expenditures already support NDCs? Can a “climate budgeting framework” lead to better expenditure performance?
- 3 What are the macroeconomic implications of carbon pricing? How do we share the gains and the burden?
- 4 How are my peers approaching these questions? What has worked and what hasn't?

## *Climate Action Peer Exchange (CAPE)*

- WB and Moroccan COP22 Presidency launched CAPE in November 2016
- Peer exchange platform targeting ministries of finance and planning
- Focus is fiscal policy instruments for implementing the Nationally Determined Contributions (NDC)s - the countries' climate commitments.
- Promotes mainstream climate consideration into country budget and planning processes.

### **Key Features**

- **Country-driven platform for capacity development**
- **Peer-to-peer knowledge sharing** to identify common challenges and broaden the impact of successful efforts.
- **An online platform and virtual communications system**
- **A CAPE Secretariat** to coordinate the initiative, supported by World Bank



## *Topic Areas*

- **Fiscal instruments** for low-carbon growth, carbon pricing, emissions-trading systems, fuel taxes, feed-in tariffs, subsidies for renewable energy and other green technologies.
- **Macroeconomic modeling** to forecast economic growth and public-debt trajectories under different strategies for meeting NDC commitments.
- **Fiscal risk assessments** of potential fiscal impacts for transition low-carbon growth, implications for debt dynamics and contingent liabilities.
- **Climate-change financing frameworks** to integrate low-carbon growth into national planning, budgeting, and monitoring and evaluation systems.
- **Public investment planning techniques** to mitigate uncertainty and manage the economic costs of climate-change adaptation, both in key sectors and economy-wide.

## Where is the carbon? Inputs and outputs

- A carbon tax can be applied directly to the final consumer via fuel taxes
- But petroleum products and coal are also key inputs into the production of most items
  - Energy, transport, petrochemicals

## Tax instrument Excise/Cess/Levies and GST/VAT apply to petroleum products

- **Excise-type:** nonrefundable taxes that cascade down the value chain when petroleum products are inputs to production
  - Cascading dampens progressive effect of exemptions and low-rates meant to protect the poor
- **VAT-type:** provides credit for taxes paid on inputs, so carbon content of non-energy consumer products effectively not taxed
  - Dampens incentives for producers to reduce use of carbon-intensive inputs hence rarely used as carbon taxes

## CAPE Helping countries think through implications

- In practice, countries apply a mix of excise and VAT-type instruments on petroleum products
  - How is the mix in different countries?
  - How can the impact on the poor from cascading taxes be estimated, and what can be done to mitigate its impact?
  - What is the experience with consumption changes?

# Main events in the future

<p><b>April 20 &amp; 21</b></p>	<p><b>WB/IMF Spring Meetings</b></p>	<p><b>4/20: CAPE announcement at High Level Assembly of the Carbon Pricing Leadership Coalition</b></p> <p><b>4/21: Partnership Meeting of CAPE members</b></p> <ul style="list-style-type: none"> <li>• <b>Agenda includes CAPE’s 12 month work program, governance arrangements, role of contributors, etc</b></li> <li>• <b>1 – 2 country presentations</b></li> </ul>
<p><b>May 20-24</b></p>	<p>CAPE technical workshops</p>	<p>Vienna: DMF meeting on Climate Change and Debt Management</p> <ul style="list-style-type: none"> <li>• Workshop: Innovative debt instruments for managing impact of climate change</li> </ul> <p>Barcelona: Innovate for Climate (finance day)</p> <ul style="list-style-type: none"> <li>• Showcase of Spain and Morocco support</li> </ul>
<p><b>July 10-12</b></p>	<p>Regional meeting (TBC)</p>	<p>(TBC) Shanghai: Asia Pacific meeting on Climate Budgeting or related topic</p>
<p><b>Sep 2017–Jan 2018</b></p>	<p>Other regional/topical meetings (TBC)</p>	<p>(TBC) Africa regional meeting: Improving climate resilience of infrastructure</p> <p>(TBC) Southeast Asia regional meeting: Finance Ministries on climate budgeting</p> <p>(TBC) Modeling the impact of NDCs on growth and fiscal space</p> <p>(TBC) Workshop on upstream carbon pricing through fuel taxes (support from an experienced Asian country)</p>