Fiscal policy and Financing

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1. Introduction

- Urgency:

  Tackle both mitigation and adaptation under compounded risks by COIVD-19 and conflicts.

- New topic for all and Public goods:

  Need intensive coordination among stakeholders

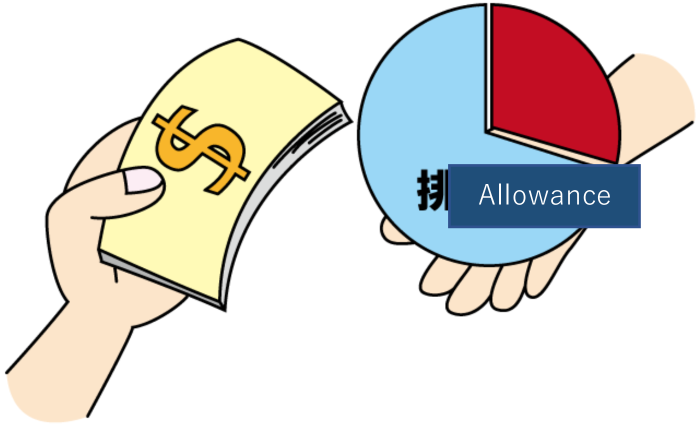
- Uncertainty:

  Frequency/magnitude of disaster
  New possible technology (such as hydrogen, ammonia, CCUS)

-> It is good opportunity to accelerate <u>green recovery and growth</u> to build resilience to diverse risks.

-> Fiscal policies play important role with <u>sustainable and innovative policy instruments by utilizing experience and knowledge of wider stakeholders. (even areas with uncertainty)</u>

2． Carbon Tax and Emission Trading



- Carbon Tax and Emission Trading is absolutely important.
- Several countries and areas have already started it (for the trading, such as EU, China, Tokyo etc.) or are preparing it (for carbon tax, such as Indonesia etc.)
- The point is to ‘get right price’ .

-> It may take time to get right price.
-> In parallel, it is necessary to prepare <u>other relevant policy instruments to address climate change</u>.

Emission Trading (US$/$CO_2$-t)	
EU	87
China	9
Tokyo (Japan)	4
J Credit （Japan）	25.2

(April 2022)

Carbon Tax (US$/$CO_2$-t)	
Japan*	2.3
Indonesia**	2.0

*Other tax on energy source
**Minimum rate and not yet effective

3 (1). Preparation of policies and their instruments

National Commitment (such as LTS, NDC)

to cover all sectors with priority

Strategies/Roadmaps on sector/subsector

to prepare the detail and mainstreaming

to listen voices from academia/private

to accommodate new possible technologies

Setting policy instruments and budgeting

to enhance effectiveness against climate change

Implementation and review

to monitor and modification for more effectiveness

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Since climate change is public goods and new topic for all, ‘wider’ (sectors, stakeholders, technologies) and ‘mainstreaming’ and ‘PDCA cycle’ under the strong commitment. It is necessary to pursue any options.

3(2). Example in Japan

In addition to the commitment by Prime Minister, LTS and NDC,	
Strategies/Road maps on sector/subsector	Many strategies and roadmaps of sector/subsector : With the academia and the private (by utilizing experience and knowledge of wider stakeholders) (Example: Transition roadmaps for Power , Gas, Iron & Steel, Housing & Building, Ships etc.)
Setting policy instruments and budgeting	Many Policy instruments based on the strategies and roadmaps: (Example: Green Innovation Fund （2 trillion Yen for development & deployment of new technologies, such as ammonia, hydrogen, battery, CO2 separation & utilization etc.), Subsidies on energy efficient appliance, house & buildings Mandatory of roof-top solar housing (Tokyo) etc.) Financial mobilization, under the planned law, the government will issue 20 trillion yen in ‘green transformation bonds’ over the 10 years from fiscal 2023.
Implementation and review	‘Green Transformation Panel’ launched by Prime Minister Kishida

-> Basic Direction for green transformation has just finished public comments. (feel difficulty and unclear on burden on people…)

4(1). JICA’s Experience with developing countries

Issues to be considered are:

- Commitment by developing countries (almost all countries made including LTS and NDC).)
- Fiscal liquidity or Fiscal risk
- Enhancement of capability of relevant organizations/polices to address climate change
- Continuous dialogue, co-creating

(e.g. dialogue on disaster risk finance policy framework with the Philippines)

-> For implementable and effective measures

4(2). Case 1: Indonesia Climate Change Program Loan

This addressed to sector-wise issues with overall direction.

After the program loans, continuous dialogue with technical cooperation and finalization on PPP regulation/Infrastructure Guarantee/Geothermal risk reduction for the private mobilization were achieved later.

Objective	To address both fiscal liquidity and policy actions including capability against climate change (Under recovery from impact by Asia currency crisis and Rehman shock in 2009))
Period	2008, 2009, 2010 (with AFD)
Financing Amount	95,407 mil JPY
Main Policy Action	National Action Plan, measures to be taken and refection into National Development Plan Regulation of renewable energy development with incentive (with WB) Regulation of energy efficiency (audit and labelling) Regulation on reduced emissions from deforestation and degradation (REDD) Regulation and Formation of integrated river basin management plan

4(2). Case2 Phillipines Post Disaster Standby Loans

-> These cases accommodate the needs of developing countries with continuous dialogue for mainstreaming by utilizing experience and knowledge of wider stakeholders.

-> It is more challenging to address capability & implementability (including budget) in region.

Objective	To accommodate both fiscal risk (by natural disaster to happen) and policy actions including capability against climate change. It provides finance quickly when natural disaster happens.
Period	2014, 2020 (3rd standby loan under preparation)
Financing Amount	100,000 mil JPY
Main Policy Action	National and Local Disaster Risk Reduction Management Plan National Disaster Response Plan Guidelines of use of Local DRR Fund Nationwide Operational Assessment of Hazards Rules and regulations for adequately insurance of key properties, assets and other insurable interests. (with WB)
Others	2nd Standby Loan include declaration of Public Health Emergency by the President etc. as trigger of disbursement to quickly response financial needs under COIVD-19

5. Co-Creation of Policies and tools

- JICA's cooperation has been sophisticated through dialogue with developing countries.

- Project -> Program Loan (fiscal liquidity. 2000s～) -> Standby Loan (fiscal risk. 2010～) including relevant policies and instruments

  (with relevant policies such as enhancement of plan and investment in DRR)

- Response to the urgent voices on fiscal liquidity: Program loan with the most concessional terms and conditions (about 20 countries with 700 bil. JPY)

- New financing source:

  Green Climate Fund ('Building Climate Resilient Safer Islands in the Maldives'
  Forestry in Lao under preparation)

  Private Sector Investment Finance (revived in 2011)

->What are further necessary?

-> Voice from all of you are important to make further efforts (Co-Creation).

6 . Summary

For adequate fiscal policies and their instruments,

- ‘Wider’ (sectors, stakeholders, technologies) and ‘Mainstreaming’ and ‘PDCA cycle’ under the strong commitment since climate change is public goods and new topic for all.
- Any options should be considered (such as new possible technologies).
- To this end, it is important to make continuous dialogue and utilize experience and knowledge of wider stakeholders (listen to the voices).

-> With further continuous dialogue, I would like to seek for co-creation to further address climate change.

reference

Case of Blended Finance:
Energy Efficiency and Conservation Financing Promotion Project, Bangladesh – Japan International Cooperation Agency (JICA)

Project overview and objectives

The Japan International Cooperation Agency's (JICA) Energy Efficiency and Conservation Financing Promotion Project in Bangladesh is designed to promote energy savings for industry and other economic activity, including the commercial buildings and residential appliances sectors. The project provides incentives to private firms to install updated energy efficient equipment to their production systems.

Choosing the financing instrument

JICA is providing loans to the Government of Bangladesh in two phases (including the cost for consultancy services):

• Phase 1: JPY 11,988 million (approximately USD 87 million; 0.01% interest rate, 40-year tenure with 10-year grace period)

• Phase 2: JPY 20,076 million (approximately USD 145 million15) 0.90% interest rate, 30-year tenure with 10-year grace period).

The process is designed as a two-step loan (TSL): JICA provides finance to GoB institutions (IDCOL and BIFFL), which is then lent to private sector end-users (sub-project owners). The typical terms of the loan from IDCOL/BIFFL to the end-users have a 4–7% of the interest rate and repayment period up to 10 years. These loans are only eligible for the procurement of eligible energy efficient equipment.

If a sub-project includes components that are not eligible for financing from JICA (for example, building/expanding factories, or auxiliary equipment) the partner financial institution, IDCOL/BIFFL, helps applicants arrange commercial finance to be blended with JICA finance to complete the sub-project