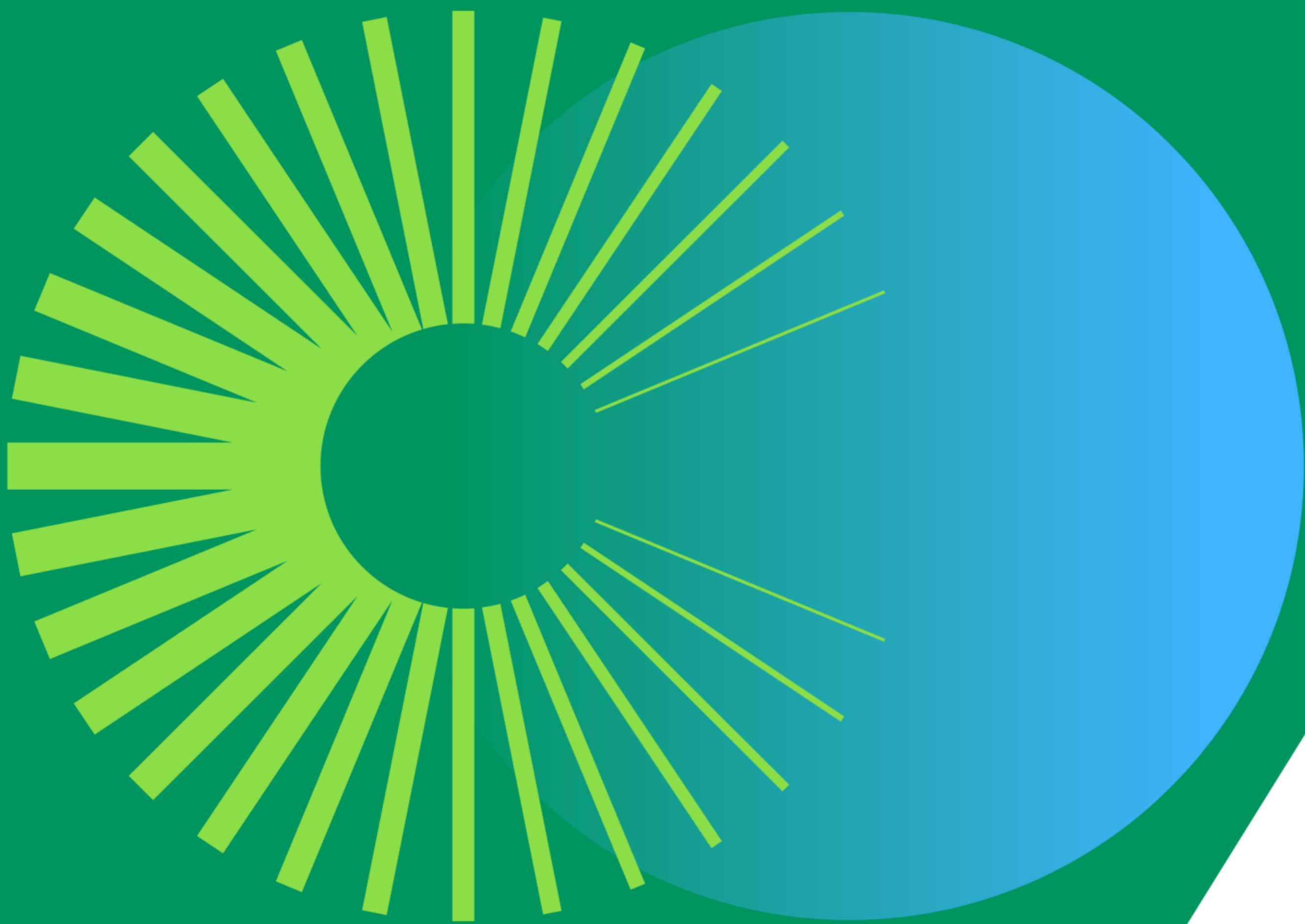
INCLUSIVE FORUM ON
CARBON MITIGATION APPROACHES

Co-Chairs' Summary of the first inclusive multilateral dialogue

14 November 2023



OECD
BETTER POLICIES FOR BETTER LIVES

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A key aspect of the Inclusive Forum on Carbon Mitigation Approaches' (IFCMA) mandate is to provide a platform for inclusive multilateral dialogue aiming to help optimise the global impact of mitigation efforts in countries around the world. Member-driven, the inclusive multilateral dialogue enables countries to discuss a wide range of climate change policy issues in a "safe space" for peer exchange and mutual learning.

The first inclusive multilateral dialogue, held on 14 November 2023, focused on two broad topics to help set the stage for more focused discussions in future sessions. Delegates discussed their experience with designing, implementing, and assessing mitigation strategies, and ways to channel finance to optimise carbon mitigation outcomes. This Co-Chairs' summary[1] sets out the main messages of the discussions.

Design, implementation, and assesment of mitigation strategies

The first session of the inclusive multilateral dialogue focused on countries' experiences with designing and implementing mitigation strategies in consideration of their climate goals and the interactions between mitigation and other policy domains. Overarching questions for discussion were:

- What strategies or decision-making frameworks have proven effective in aligning different policy objectives, such as economic growth, social equity, and environmental sustainability, to create a mitigation policy mix that is both politically viable and environmentally effective?
- In a forward-looking perspective, how do you evaluate the resilience of your mitigation policy mix with respect to changes in exogenous variables such as, for example, technological progress, affordable access to capital, the diversification and/or disruption of supply chains, and emerging standards for international trade?

Following scene-setting presentations by Australia, Singapore and South Africa, delegates discussed the following questions:

- What process did your country go through to determine mitigation policy approaches and policy packages? How were different policy objectives taken into account?
- What steps did your country take to facilitate implementation? (e.g. to secure social and cross-party political support, analysis of expected consequences of policy implementation, to secure required financing).
- Has your country undertaken an assessment of implemented policy approaches and policy packages, including to consider and help address any unintended consequences? Are any amendments envisaged, with a view to continuous improvement or to enhance resilience of policy approaches?

[1] This Co-Chairs' Summary reflects views heard at the inclusive multilateral dialogue, which was held under the Chatham House rule. It does not necessarily reflect the views of the OECD Secretariat nor members and invitees of the IFCMA. The summary is issued under the authority of the three Co-Chairs of the IFCMA.

Main messages from the discussion:

1. **Coordination across different ministries and levels of government is key to facilitate holistic and coherent mitigation approaches.** Delegates highlighted the importance of cross-ministerial coordination in ensuring that policy approaches recognise and proactively take into account potential trade-offs and synergies between mitigation efforts and other policy domains. Effective coordination supports policy consistency across ministries and avoids potential conflicting policy signals and incentives, facilitating progress. Moreover, by involving ministries of finance in an early stage in coordination on climate change issues, governments can ensure that the necessary long-term financial resources are made available to deliver on mitigation targets.

   To foster coherent policy approaches, some countries are developing national catalogues outlining the spectrum of existing policies that may impact a certain policy area (e.g. a catalogue delineating all environmentally harmful or friendly subsidies). Such catalogues can help governments identify opportunities for policy reform and alignment, optimising the impact of policy intervention. In other instances, countries have designated specific ministries as coordinating or lead entities or have established new government bodies (e.g. climate change commissions, councils, task forces, and authorities) tasked with driving whole-of-government responses to climate change.

   When establishing coordination systems, it is crucial to define the role of different government actors and ensuring that coordinating ministers have sufficient "weight" within the government, backed by a substantial, dedicated budget, to be able to effectively coordinate.

2. **Integrating mitigation targets and policies into broader policy packages or frameworks, including via legislation, can significantly bolster their political viability and resilience.** Delegates noted that embedding mitigation targets and policies in broader policy frameworks promotes long-term planning and provides a more predicable policy and regulatory environment. Seeking synergies between mitigation policies and other policy objectives such as economic growth, job creation, energy independence, and tangible outcomes such as air quality improvements, can enhance public support and further unlock the fiscal resources necessary for implementation.

   One illustrative example of linking policy objectives is making the provision of green tax incentives and subsidies to businesses conditional on the fulfilment of specific labour standards, such as maintaining a certain minimum wage level, and increasing incentives when investing in vulnerable communities. These linkages can play a crucial role in building broad political support, leading to policy packages that have a higher chance of withstanding changes in political administrations, economic conditions and other shocks.

   Delegates highlighted that successfully addressing emissions from the agriculture sector and public-facing areas (e.g. buildings, flying, food) remains challenging. There is scope for further peer-exchange and ex-post analysis to support policy making in these areas.

3. **Anchoring mitigation strategies in the principles of a fair and inclusive transition is crucial for gaining and maintaining public acceptance of mitigation policies.** Delegates frequently cited the example of coal workers facing job losses due to coal phase-outs and underscored the importance of affordability of mitigation measures, especially amidst high inflation and cost-of-living crises.

Without adequately safeguarding and compensating workers and vulnerable groups, mitigation policies quickly risk losing public support. Governments should collaborate with a wide range of stakeholders, such as trade unions and businesses, to facilitate a fair and inclusive transition and generate sustainable, higher-quality jobs for vulnerable groups.

To achieve an equitable distribution of transition costs over societies, several countries explicitly incorporate principles such as 'the polluter pays' and 'the broadest shoulders should bear the heaviest burden' in their policy frameworks. Some highlighted approaches in this context involve progressively increasing carbon prices for major polluters while recycling revenues to support vulnerable communities. Some countries specifically track the impact of green investments (both positive and negative) on vulnerable communities. Certain policy instruments provide higher green tax incentives or subsidies to businesses when they invest in low-income areas or areas adversely affected by the energy transition. Allocating specific funds to facilitate access to finance for home isolation or the deployment of renewable energy sources can also help vulnerable communities benefit from the energy transition. Consistently reporting the social benefits and success of these policies is key to building public support.

Delegates emphasised the importance of properly targeting support measures, particularly towards low- and middle-income households. Numerous countries are directing special attention to rural communities, offering them additional compensation to acknowledge the limited short-term emission reduction options and alternative job opportunities in these areas. While compensating households for the costs associated with certain mitigation measures, such as energy and fuel taxes, governments should strive to maintain the price signal even as support measures are implemented, through well-targeted support.

4. **Securing business support for mitigation policies involves providing long-term policy signals and finding a balanced approach between 'carrots' and 'sticks'.** Delegates emphasised the importance of gaining businesses' buy-in for mitigation approaches, stressing the need for consistent involvement in the policy design process.

   Exploring what mitigation efforts and commitments businesses can deliver on a voluntary basis can serve as an important initial step that fosters a sense of ownership. Working together with businesses to establish sector-specific mitigation targets and frameworks has been highlighted as another pragmatic step in securing buy-in and establishing a predictable business environment. In this context it is important to strike the right balance between 'carrots' (subsidies, tax incentives) and 'sticks' (standards, carbon pricing).

   Delegates noted that with the right incentives and frameworks, governments not only increase the likelihood of business support for mitigation policies but also incentivise businesses to advocate for more ambitious climate actions.

5. **Proactive and extensive public consultations and ex-ante and ex-post impact assessments can play a pivotal role in garnering political support for mitigation policies by ensuring inclusivity, transparency, and accountability.** Delegates noted that, building on the importance of social equity and the role of businesses in the transition, it is important to involve a diverse range of stakeholders early in the policy design process, including citizens, community groups, trade unions, and businesses, to enhance the public legitimacy of policies, and allow policymakers to

identify and address potential sources of concern and resistance early in the process. Likewise, ex-ante impact assessments looking at macro-economic impacts can help identify adverse effects of policies and areas for refinement upfront. Assessments can include cost-benefit analyses and regulatory impact assessments or can be based on specific principles such as 'do no significant harm'.

Beyond consultations and assessments of specific pieces of legislation, some countries have moved towards institutionalising public stakeholder input through national climate platforms and citizen fora to provide continued feedback on mitigation policies. Delegates noted the importance of ensuring balance of stakeholders and avoid creating a club containing 'the usual suspects' only. In this context, it may be useful to consult beyond large umbrella organisations. Education measures can also be fundamental to garner political support.

6. **Independent assessment mechanisms can support continuous refinement of mitigation strategies and enforce government compliance with its own mitigation goals**. Delegates noted that in numerous countries, independent assessment agencies track policies' mitigation impact against the governments' own mitigation targets using sectoral and economy-wide models and support sectoral ministries in actively seeking opportunities to enhance ambition. In several cases such a routine assessment of mitigation progress is legally required. Where agencies find that insufficient progress is being made, they can issue policy (reform) recommendations to increase mitigation efforts, and in some countries with binding targets, force governments to strengthen mitigation policies.

   Following phased policy approaches or pilot projects may also be useful when implementing larger policy interventions. Interim assessments of initial phases or pilots can deliver important insights that can be used to calibrate policies for the next phase. Delegates highlighted however, that it may be difficult to separate policy impacts from exogenous factors, such as economic downturns.

   Delegates also highlighted the challenges associated with collecting relevant data. In addition, delegates highlighted the need for comprehensive assessments that take into account impacts on various policy domains, such as employment impacts, but noted that this can be a challenge in countries with strict data protection legislation, where combining various information sources may face legal obstacles.

   Finally, delegates noted the need to learn from the experiences of other countries and to exchange best practices, and that the IFCMA could fill a crucial role in this regard.

Chanelling finance to optimise carbon mitigation outcomes

The second session provided a space for discussion on the links between mitigation policy design and implementation, and the channelling of private and public finance in support of reaching mitigation targets. A Secretariat issue note and presentation set the stage for the discussions, noting the importance for policymakers to bear finance implications in mind to optimise enabling conditions and the ability to "crowd in" finance to ensure the full and effective implementation of their climate mitigation approaches. Delegates were invited to exchange on the following key questions:

- What is the role of finance and investment in enabling effective mitigation outcomes? How might governments amplify the effect of domestic mitigation policies in mobilising finance and encouraging investment for climate action?
- What kind of information and insights could the IFCMA provide to help align finance from public and private sources with governments' mitigation efforts? Are there specific areas in which you see potential benefit in enhanced multilateral exchange and information flow, to support finance and investment decision making toward climate mitigation?
- How best to combine public and private finance in fostering the development and deployment of clean technologies?

Main messages from the discussion:

1. **Effective implementation of mitigation policies will require the significant mobilisation of financial resources.** Delegates highlighted the scale of the challenge, noting that the transition will represent for some advanced countries the equivalent of several percent of GDP per year, while for some small island and developing countries, short-term mitigation and adaptation costs could reach up to 50% of their GDP. It was flagged that certain mitigation policies can significantly impact governments' fiscal space; at the same time, others can raise revenue and contribute to crowding in private finance; a critical enabler for the transition. Finance and investment are vital for the effective execution of mitigation strategies.

2. **Existing and new domestic revenue raising instruments, such as carbon taxes and green bonds, can contribute to meeting a portion of the overall financial needs and – if reinvested strategically – amplify revenue collected at source.** Implementing progressive carbon pricing, imposing levies on fossil fuels and conventional vehicles, and shifting to a greener fiscal system by phasing out detrimental subsidies and shifting tax burdens to polluters, can generate significant revenues to support countries' mitigation strategies. Delegates also underscored the growing prominence of sovereign green, social, sustainability, and sustainability-linked bonds, which already constitute a substantial share of the public debt in certain countries. Nevertheless, it was acknowledged that while domestic revenues are crucial, they need to be complemented by substantial injections of private sector finance. In the context of developing countries, a robust flow of international climate finance is imperative to bolster mitigation efforts, in addition to the clear adaptation needs.

3. **Taking a partnership-based approach, such as through the Just Energy Transition Partnerships (JETPs), can play an important role in mobilising finance and supporting better mitigation and social outcomes.** Delegates highlighted the practicality of partnership approaches, particularly in

the context of JETPs, as they are owned by the host country. This ownership allows for effective tailoring of conditions to the country context. These partnerships are anchored in the principle of a fair and inclusive transition emphasising tangible and effective mitigation efforts while considering the well-being of workers and families and avoiding disproportionate impacts on vulnerable groups. These partnerships typically integrate a diverse array of instruments, including grants, concessional loans, investments, and risk-sharing mechanisms, with significant investment commitments from international development finance institutions and the private sector.

JETPs also introduce guarantees backed by donor governments, providing participating nations with access to more substantial funds than they typically could secure from multilateral development banks. Responding to calls from vulnerable countries, there is a growing acknowledgment of the need for new debt structures that incorporate climate-resilient clauses. These clauses offer a practical mechanism for the suspension of debt payments during climate-related shocks, acknowledging the significant climate impacts faced by vulnerable countries.

4. **Working towards shared definitions and harmonised typologies for green activities, interoperability between approaches, and sharing best practices, are crucial to shifting the financial sector to align all flows of finance with the objectives of the Paris Agreement.** Delegates stressed the importance of establishing consistent metrics and methodologies to measure the alignment of finance with net-zero goals, as this plays a fundamental role in steering private finance towards environmentally sustainable initiatives and greening the financial sector as a whole.

   The presence of clear definitions and typologies for green activities enhances transparency, fosters accountability, and mitigates the risk of greenwashing. It also helps in avoiding market fragmentation and prevents undue administrative burden on businesses. This, in turn, empowers stakeholders to identify, evaluate, and invest in green projects with confidence, fostering the overall growth and impact of green finance initiatives while preventing carbon lock-in.

   Delegates underscored the necessity of communicating and exchanging on best practices with the private sector to implement climate commitments. Some countries have taken proactive steps by releasing principles for net-zero aligned finance and investment. These principles aim to encourage the adoption of measures such as the development and execution of transition plans, promoting a concerted effort towards achieving climate goals in collaboration with the private sector. The IFCMA could play an active role in helping countries to identify and disseminate best practices.

5. **Crowding in private capital remains a critical priority, requiring well-defined policy frameworks and active government support.** Governments need to collaborate closely with businesses to grasp the practical challenges in channelling private finance for the transition, and establish consistent, stable policy frameworks that send a clear signal to private sector stakeholders. Sector-specific strategies, including those fostering public-private partnerships, can significantly help directing investments in the desired direction.

   To facilitate the transition, essential tools like subsidies and tax incentives must be strategically deployed to support both the supply and demand side for low carbon solutions. These measures are vital for expanding capacity in critical sectors such as electric vehicle production, promoting renewable energy deployment, and creating markets for low-carbon products. They are especially necessary to guide businesses through the challenging commercialisation phase of technology development, and in managing risks linked to early-stage investments in sustainable projects, particularly where returns may be uncertain or come to fruition over a longer time horizon.

In various countries, mechanisms like contracts for difference have successfully attracted private capital, notably in renewable energy projects. These models provide long-term clarity, reduce investment risks, and have proven effective, particularly in sectors that have faced significant uncertainly on future prices and costs, such as offshore wind. Governments are seeking to extend their application to emerging areas like hydrogen, Carbon Capture, Utilisation, and Storage, and Direct Air Capture.

Delegates stressed the importance of predictable fiscal policies as critical drivers for directing investments toward low-carbon initiatives. Support measures should, where possible, be targeted, technology-neutral, transparent, time-bound, and non-discriminatory for optimal outcomes.

6. **National development banks and investment funds can play a key role in bringing together public and private finance to support green projects.** Many countries are now establishing dedicated national development banks, strategically focused on funding low-carbon infrastructure projects. Serving as intermediaries, these banks consolidate projects to achieve economies of scale, enhancing appeal for both public and private investors. By facilitating the integration of funds from public, private, and international donors, they can offer concessional loans to the private sector for the development of green projects.

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