



Second G20 Sustainable Finance Working Group Meeting Udaipur, 21-23 March 2023

G20 Workshop on Non-Pricing Policy Levers to Support Sustainable Investment

The G20 Presidency organised a workshop for discussion on non-price policy levers (NPPLs) to enhance the understanding of their potential for addressing climate change, along with highlighting cross-country experiences.

Two input papers were circulated to members prior to the workshop: “[*Non-Price Policies for Addressing Climate Change: the Global Experience*](#)” by the Centre for Social and Economic Progress (CSEP) and “[*Promoting Climate Action through Non-Pricing Policy Measures*](#)” by the Asian Development Bank (ADB).

The workshop was organised in following 2 sessions preceded by two keynotes:

- Session I: Designing and implementing non-pricing policy tools: challenges and opportunities
- Session II: Non-pricing policies mixes: modelling challenges and economic, climate, and social effectiveness (cost-benefits)

This note captures key messages and summarizes the main outputs; the workshop’s agenda, including further details on speakers, is provided in Annex.

Keynote Address

The first keynote speaker was Mathilde Mesnard, Deputy Director for the Environment Directorate at OECD. Her presentation included a detailed analysis of available climate policy instruments, highlighting the effectiveness and efficiency of NPPLs, and the complementary and mutually reinforcing role that NPPLs can play with respect to pricing instruments, which can accelerate the development and deployment of new clean technologies. She noted that NPPLs must be targeted with a range of policy packages that address different emission types adapting to specific sectors. She added that, although in the last two decades, the use of market-based or pricing instruments has increased, price-based measures alone are not sufficient to meet the emissions targets with current technologies and given abatement costs. The presentation also introduced OECD’s Inclusive Forum on Carbon Mitigation Approaches (IFCMA), an initiative designed to help improve the global impact of emissions reduction efforts around the world through better data and information sharing, evidence-based mutual

learning and inclusive multilateral dialogue. The presentation also discussed the various works undertaken by the OECD to assess the results of different policy mixes in different countries, and recommendations on how to develop environmentally effective and economically efficient instruments.

The second keynote speaker was Prof E Somanathan, Economics and Planning Unit from the Indian Statistical Institute. His presentation focused on the main types of non-price policies, including regulatory standards for carbon efficiency and fuel efficiency, public investment in green infrastructure, support for innovation, and behavioural change-focused policies including educational and social campaigns. He highlighted that for commercialisation and development of the market, price support to potential consumers and direct procurement by the Government can be essential to develop the ecosystem. Public investment in low-emission transport such as rail and urban planning, efficiency standards, research and development, and support for municipal regulatory capacity building can have a large impact on emissions. Policies can also be directed for behavioural change through motivation and, information.

Session I: Designing and implementing non-pricing policy tools: challenges and opportunities

The roundtable was moderated by the World Bank. The speaker from School of Oriental and African Studies (SOAS) discussed the related challenges of mitigating risks and scaling up sustainable finance and the tools used by the central bankers to mitigate macroeconomic and financial stability risks stemming from climate change's physical and transition risks. The panellist from China's central bank discussed the practices of NPPLs in China and green finance evaluation for financial institutions, along with challenges, including adequate measurement of and uncertainty around physical and transition risks as well as limitations in assessing effectiveness of investments in emissions reduction. The speaker also noted that data availability is a key concern for better carbon accounting. Another speaker from UK discussed sustainable finance disclosures in the UK. The importance of multiple policy instruments to effectively address climate change was highlighted. The panellist from Morocco Central Bank discussed energy transition strategies and decarbonisation pathways developed to reduce emissions in transportation, industrial activities and the energy sector, including challenges faced by developing countries such as finding the right policy mix.

Session II: Non-pricing policies mixes: modelling challenges and economic, climate, and social effectiveness (cost-benefits)

The second roundtable discussed the challenges of choosing an optimal policy mix for maximum impact and the use of NPPL to cover the large financing gap that needs to be met to achieve the goals of the Paris Agreement. International Finance Corporation (IFC) moderated the session. IMF highlighted that holistic mitigation strategies would rely on a package of pricing and non-pricing measures, with financial and non-financial sector policies complementing each other to improve risk mitigation and information architecture. IMF noted that developing information architecture that includes data, disclosures, alignment approaches for investments, and regulation to incorporate climate-related risks into prudential frameworks will assist in building an environment for low-carbon development. The speaker from Tufts University also suggested that sequencing pricing and NPPLs appropriately is important. NPPLs can circumvent political economy constraints, mitigate distributive and equity impacts of carbon pricing tools and support in overcoming institutional capacity limitations. The panellist from Harvard Environmental Economics Program presented research on energy efficiency technology within which labelling, standards and subsidies that target the audience to switch to more efficient technology can address negative market externalities, behavioural issues and measurement

issues. The representative from the Coalition of Finance Ministers for Climate Action highlighted the leadership role that the finance ministries and central banks could play in mainstreaming climate action.

Key Takeaways from the workshop

- NPPLs are critical in complementing price-based instruments and addressing negative market externalities and inefficiencies linked to climate change and supporting low-carbon development pathways. A holistic mitigation strategy could rely on a package of pricing and non-pricing measures with differentiated effects economic growth and emissions reduction.
- A combination of the global toolbox and country experience, comparisons of policies, costs and benefits can help in building an understanding of policy sequencing
- Integrating climate risks and impacts into policy making could reduce the climate risk for the financial system and economy at large, and can be achieved through calibrating various existing instruments at the disposal of policy makers, including central banks and other regulators where appropriate.
- Consequences of negative market externalities and transition risks can be mitigated in part by developing a robust data and information architecture. Dedicated policies are needed to develop such an architecture, which could include the development of standards, disclosure requirements or guidance, and other policies, considering country-specific circumstances.
- Modelling exercises are important to understand the mobilization effectiveness, economic efficiency, and equity and environmental integrity of different policies including both pricing and non-pricing measures. However, non-pricing policy levers may be more difficult to model than pricing measures.
- Policies to advance the diffusion/uptake of energy-efficiency technology – for example, through labelling – are an important non-pricing approach to reducing carbon emissions and advancing broader sustainability.
- Governments can play an important role in nudging energy efficiency measures, investments in green infrastructure, and other behavioural changes through a wide array of NPPLs.

The workshop enabled participants to share country experiences, lessons and discuss NPPL mixes that support sustainable financing and investment, within the mandates of central banks and ministries of finance, with due consideration for national circumstances and nationally defined development priorities. The workshop provided a space for jurisdictions and international organisations to discuss the different models countries have deployed, the policies and the sequencing they have adopted, and share their experiences.

The Presidency's closing remarks reiterated that governments have significant roles in nudging consumption and production behaviour. The Presidency also highlighted the need for climate disclosures and developing them proportionally in the context of small and medium enterprises (SMEs). The Presidency also emphasised the importance of sharing experience to scale up interventions that achieve low carbon development pathways as well as the importance of taking into consideration country-specific circumstances and that of small and medium enterprises.

Annex

Date and Time: Wednesday, 21 March 2023

Venue: Radisson Blu, Udaipur

Time (UTC+5:30 IST)	Topic	Duration
9:00 – 9:20	Opening remarks for the side event	20 Minutes
9:20 – 9:35	Keynote 1: Approaches adopted on non-price policy architecture. Mathilde Mesnard , Deputy Director for the Environment Directorate and OECD Co-ordinator for Climate and Green Finance	15 Minutes
9:35 – 9:50	Keynote 2: Cross country experiences. Prof E Somanathan , Professor, Economics and Planning Unit, Indian Statistical Institute, New Delhi	15 Minutes
9:50 – 11:15	Roundtable 1: Designing and implementing non-pricing policy tools: challenges and opportunities <u>Moderator:</u> Fiona Stewart , Lead Financial Sector Specialist in the Finance, Competitiveness, and Innovation Global Practice at the World Bank Group <u>Panellists:</u> <ul style="list-style-type: none"> • Serina Ng, Deputy Director of the Global Issues and Governance team, HMT, UK • Ulrich Volz, Professor of Economics and Director of the Centre for Sustainable Finance at SOAS, University of London • Zhang Bei, Deputy Director-General of the Research Bureau, the People's Bank of China 	1 Hour 25 Minutes
11:15 – 11:35	Coffee/Tea Break	
11:35 – 13:00	Roundtable 2: Non-pricing policies mixes: modelling challenges and economic, climate, and social effectiveness (cost-benefits) <u>Moderator:</u> Shalabh Tandon , Regional Head of Operations & South Asia Head of Climate Change IFC South Asia <u>Panellists:</u> <ul style="list-style-type: none"> • Easwaran J. Narassimhan, Visiting Faculty and Fellow at the Climate Policy Lab, The Fletcher School, Tufts University 	1 Hour 25 Minutes

	<ul style="list-style-type: none"> • Pekka Moren, Special Representative of the Minister of Finance & Co-chair of the Coalition of Finance Ministers for Climate Action • Prasad Ananthakrishnan, Unit Chief, Climate Finance Policy Unit, Monetary and Capital Markets Department, IMF • Robert C. Stowe, Co-Director of the Harvard Project on Climate Agreements (Harvard Project) and Executive Director of the Harvard Environmental Economics Program (HEEP) 	
13:00 – 13:10	Concluding remarks by Co-chairs Concluding remark by G20 Presidency	10 Minutes

This brief has been prepared by the G20 presidency as a contribution to the SFWG but it does not represent the official views or position of the Group nor of any of its members.