The Coalition of Finance Ministers for Climate Action

Non-price policies for addressing climate change: challenges in assessing the performance of policy packages for Ministries of Finance and economic decision-makers

Centre for Social and Economic Progress (CSEP)

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Supporting the work of India's 2023 G20 presidency

Successive G20 presidencies, including those of India and Indonesia in recent years (G20 Indonesia, 2022), have advocated inclusion of nonprice carbon emission reduction measures, which exist across countries. Emerging markets and developing economies (EMDEs) have historically resisted the idea of a sole, explicit carbon tax for political, distributive, and competitiveness reasons. As an input into G20 discussions during India's Presidency (2023), the Centre for Social and Economic Progress (CSEP) compiled and assessed the range of nonprice policies instituted across these countries (Kohli et al., 2023). Comprehensive variants of nonprice policy levers across different sectors, serving multiple and overlapping objectives and often aligned to climate action targets, are combined with implicit carbon pricing measures (e.g., fiscal, other financial incentives) as part of the overall climate policy framework in all these countries. The commonest are greenhouse gas reduction targets, research and development support, grants, subsidies, and other financial incentives for green projects, emissions disclosure norms and standards, green infrastructure development, information, and education, including voluntary approaches. The mapping by the CSEP has uncovered substantial heterogeneities and complex interlinkages across sectors, tools, and policy objectives. In addition, there is extensive variation in the sequencing patterns and stringency of nonprice carbon emission reduction levers across country groups: the advanced economies lead emerging market ones by at least a decade in most dimensions.

There is little doubt that nonprice decarbonization mechanisms are crucial in establishing preconditions for more stringent and explicit carbon pricing at later stages—their introduction and implementation helps prepare the public and industry, raises awareness, and minimizes backlash. However, the CSEP findings underline several difficulties for policymakers.

1. A comparative evaluation of these mechanisms' relative efficacy and efficiency and the quantification for equivalence requires a careful stocktaking and mapping of the respective countries' emissions bases. This evaluation is essential and has required supplementary work jointly undertaken by the OECD and the IMF to provide the additional orientation for policymakers (Organisation for Economic Co-operation and Development & International Monetary Fund 2022).
2. The cross-country and policy-type differences can make assessments of the sufficiency of these mechanisms to meet net zero goals extremely difficult, e.g., norms and standards existing for well over one decade have not meaningfully addressed growth of greenhouse gas emissions, especially in the fast-growing EMDEs, or reduced per capita emissions in the advanced economies by significantly changing their consumption patterns. There are related concerns about convincing private participants in this regard (Organisation for Economic Co-operation and Development & International Monetary Fund 2022, pp. 14–16).
3. An initial comparison of policies, based on the G20 countries' emissions reductions and an economy-wide carbon price equivalent, illustrates large variations with respect to the combined impact of the chosen policies and targets; there is no unique methodology.
4. The apparent disparities and frictions impede coordination for cooperative climate actions without which attaining the committed Paris goal is difficult.

There is recognition that price and nonprice emission reduction policies are complementary, and there is considerable support for a mix or balance (Stiglitz, 2019). Just as a well-designed carbon price is essential for reducing carbon emissions and fostering global growth, it alone can impose unacceptable costs and distributional impacts, requiring supplementary nonprice measures (Stiglitz et al., 2017). For policymakers, this is the pathway to climate cooperation, and it encourages the private investment necessary for meeting the core commitments.

The work of the CSEP is extremely relevant for Ministries of Finance, which formulate fiscal policy, are tasked with balancing spending and taxation, and must draft the path of climate actions that require additional financing while achieving the nationally committed climate goals. These tasks necessarily

involve judgment in weighing up carbon pricing and nonprice tools (these are often implicit pricing tools, as they push up costs, e.g., stringent emission standards for internal combustion engine vehicles). The key policy and analytical questions that MoFs must ask in this regard are the following. What constitutes a coherent, effective, and politically feasible package of pricing and non-pricing measures that are sufficient to meet net zero commitments? Can this package be drafted through the existing resources, workforce, data, and techniques currently at the MoF's disposal? If not, can climate models, which think tanks are increasingly using to obtain deeper insights, facilitate such an exercise? Finally, can non-modeling economic assessments complement this work?

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