National Transition Plans and Nationally Determined Contributions

Policy Brief for the Coalition of Finance Ministers for Climate Action

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Summary

Comprehensive transition planning is essential for achieving the ambition of the Paris Agreement. Every government and every company will need to think strategically about how to contribute to rewriting the economy to put it on a low-emissions track. Capital will also need to be mobilised at speed and scale. To date, the focus has been on private sector transition planning. This is not sufficient.

Given the scale of transformation required, climate action will need to be embedded into almost every aspect of government strategy at national, sub-national and local levels. Clear, coherent, and coordinated government policy will also give companies and capital providers confidence to invest in the transition. Several policy and industry initiatives have developed transition planning frameworks, and the topic remains a priority for the G20 – in both the Sustainable Finance Working Group and the Taskforce on Global Mobilization against Climate Change (TF-CLIMA).

The next iteration of Nationally Determined Contributions (NDCs) could incorporate key elements of a strategic national transition plan (NTP). Enhancing NDCs in this way would give them stronger strategic orientation; a deeper focus on whole-of-government planning; and coherent policies, pathways and investment plans that target a just, equitable, low-emissions and climate resilient economy, in the context of countries' sustainable development and growth priorities.

Furthermore, NTPs should be part of a wider *integrated transition planning ecosystem*. They should incorporate mechanisms to direct, finance, incentivise, coordinate, and enable whole-of-economy action. An integrated approach will reduce uncertainty, help to allocate resources and capital more effectively, and build trust – supporting delivery against government objectives, and crowding-in and scaling private finance to accelerate the transition.

Governments, in particular Ministries of Finance, have an opportunity to improve their internal coordination, strengthen policy guidance for the private sector, and attract climate finance by developing NTPs – in forms of Net Zero strategy, revised NDCs, more sophisticated version of LT-LEDs, or a stand-alone document. The proposed NTP blueprint laid out below is grounded in the GFANZ and Transition Plan Taskforce (TPT) transition planning frameworks[i] [ii] developed for corporates and financial sector, and in a whole-of-government approach to economic transformation.

[1] The authors would also like to acknowledge valuable contributions from Riona Bowhay, David Neaum, and Thomas Tayler of Aviva Investors, Sustainable Finance Centre for Excellence.

State of Transition Planning

The current pace of transition to a sustainable economy is insufficient and capital will need to be mobilised at scale to accelerate progress. The UNFCCC Conference of the Parties (COP) (2023) observed that "Parties are not yet collectively on track towards achieving the purpose of the Paris Agreement and its long-term goals".[iii] Bloomberg New Energy Finance estimates that investment of $7 trillion per annum, until 2050, will be needed to meet net zero goals.[iv] Bhattacharyya et al. estimate that $2-2.8 trillion per annum will be needed by 2030 for emerging market and developing economies (EMDEs) other than China.[v]

By setting a strategic vision and identifying capital needs, transition plans (TPs) at the level of both national and sub-national governments, and across the private sector are central to the scaling of finance.[vi] [vii] But currently, only a selection of firms have published comprehensive TPs, despite efforts by policymakers and others to build momentum behind a growing number of partially overlapping guidance frameworks. No government has yet developed a truly comprehensive and strategic NTP, and coordination mechanisms within and between the public and private sectors are absent. Market failures also impede progress – e.g., a failure to price the true cost of greenhouse gas emissions and other externalities, as well as informational and coordination frictions, and capital market imperfections. These failures amplify systemic risks.[viii]

To deliver the necessary transformation, TPs for corporate and financial services sectors need to be part of a coherent *system-wide response*. Governments – in particular the Ministries of Finance - must embed a systems mindset[2] and play a strategic and decisive role in the following:

- ***Whole-of-government coordination***. Advanced economies (AEs) and EMDEs alike would benefit from a strategic approach that embeds climate action in almost every area of government activity. True transformation will inevitably have deep impacts on, *inter alia*, growth, job-creation, productivity, wealth distribution, and social policy. So, whole-of-government coordination is essential, including to reveal trade-offs, co-benefits, potential knowledge spillovers and competency gaps. [ix] It would also help to expose potential conflicts between measures – e.g., the continued application of fossil fuel subsidies (estimated at $7 trillion globally in 2022[x]). Central banks, market regulators and supervisors also have an important systemic risk oversight role to play, including to manage the consequences of dislocations in some industries as the economy transforms.
- ***Direction to economic actors and the conditions for climate action***. Across the economy, companies cite challenges arising from a lack of long-term funding certainty, mixed policy signals, and a slow public planning system.[xi] Governments can therefore play an important role in steering and incentivising private sector climate action. Columbia Center on Sustainable Investment emphasises the role governments can play to "drive innovation, shift markets, assign costs and liabilities, incentivise important investments and behaviours."[xii] Legislation in areas such as clean air, water and the phase-out of chlorofluorocarbons illustrates how the market can find an optimal solution when policy direction is clear.
- ***A stronger policy framework to unlock private finance***. By strengthening the policy framework, governments – in particular the Ministries of Finance - can also create the conditions to unlock private finance. Investors[xiii] [xiv] stress the importance of aligning market fundamentals with stated global ambitions to reduce uncertainty for providers of capital. The COP highlighted "the need to

[2] Throughout this Brief, references to government encompass all levels – national, regional, and local governments, and cities – as well as other public bodies (e.g., central banks, public finance institutions, and state-owned enterprises).

strengthen policy guidance, incentives, regulations and enabling conditions to reach the scale of investments required",[xv] also acknowledging that public funding and clear signals to investors can help reduce barriers to climate finance. Staff of the International Monetary Fund (IMF), World Bank, and Organisation for Economic Cooperation and Development (OECD) similarly emphasise the importance of a "supportive policy environment" in aligning investment with sustainability goals.[xvi] IMF calls for a mix of policies, including structural policies and enhancements to the "climate information architecture".[xvii] This could encourage investors and development partners to commit finance to EMDEs.

Currently, the transition planning documents - NDCs, National Adaptation Plans (NAPs) and Long-term Low Emission Development Strategies (LT-LEDs) – are not sufficient to provide whole-of-economy coordination and lack strategic orientation. Signatories to the Paris Agreement have agreed to publish NDCs, NAPs and LT-LEDs. These documents are inherently linked.[3] Signatories' plans for climate mitigation, adaptation and sustainable development come together in their NDCs. In 2023, the IPCC examined the linkages between mitigation, adaptation, and countries' development pathways.[xviii] NDCs and LT-LEDS could therefore provide the vehicle to plan an effective system-wide response. However, NDCs and LT-LEDS in their current form lack strategic orientation. The UNFCCC (2023) stocktakes of NDCs[xix] and LT-LEDs[xx], reveal that these documents do not yet provide the decision-useful information and mechanisms for whole-of-economy coordination and support that are necessary for successful delivery. For example, only 66% of NDCs contain information on specific climate finance, technology and capacity-building projects, and only 37% of LT-LEDs provide quantitative information about the cost of proposed climate actions and corresponding funding sources.

Governments, in particular Ministries of Finance, have an opportunity to improve their internal coordination, strengthen policy guidance for the private sector, and attract climate finance by developing NTPs – in forms of revised NDCs, more sophisticated version of LT-LEDs, or a stand-alone document. Signatories must submit revised NDCs (NDC 3.0) by February 2025. As observed by the UN Climate Change Executive Secretary, "NDCs 3.0, which double as national investment plans can steer economies towards growth-driving industries and services fuelled by renewable energy".[xxi] Several initiatives are underway to enhance NDCs .Such plans can also be submitted as a more sophisticated version of LT-LEDS, incorporating additional elements to ensure whole-of-government approach. They can also be submitted as a stand-alone document – National Transition Plans (NTPs) - that draws from and extends beyond the reports required under the Paris Agreement.

Importantly, NTPs are not meant to be yet another compliance exercise, but rather a strategic instrument to help public entities, firms, and investors understand what climate actions a government will take and how to fund them. The ideas set out below can inform this work, unpacking the content and coverage of NTPs and the mechanisms for integration with private sector TPs. Details of the NTP design process – including improvement of NDCs and LT-LEDS - will be presented in the next report.

Content and coverage of NTPs and mechanisms for integration

The proposed NTP blueprint laid out below is grounded in the GFANZ and Transition Plan Taskforce (TPT) transition planning frameworks[xxii] [xxiii] developed for corporates and financial sector, and in a whole-of-government approach to economic transformation. While other TP frameworks share common elements, the strategic, whole-of-economy orientation of GFANZ and the TPT feature the

[3] They also link with documents produced under other related international agreements, such as National Biodiversity Strategies and Action Plans produced under the Convention on Biological Diversity.

systems perspective that is necessary for the design of a meaningful NPT. The TPT framework also links helpfully to the reporting standards developed by the International Sustainability Standards Board (ISSB),[xxiv] and provides for climate mitigation, adaptation, and other sustainable development objectives to be pursued together. Developing a strategic, whole-of-government approach to transformation – at the centre of a system-wide response – will necessarily be complex, touching almost every area of government policy.

NTP elements and coverage incorporate the core content of NDCs. Figure 1 (below) highlights some key elements of an effective, strategic national transition planning approach. These elements are set out more fully on page 5. The figure 1 also identifies key content items in NDCs, as provided for in the Paris Agreement,[xxv] demonstrating that NDCs already provide the basis for the development of NTPs.

Figure 1. *Content and coverage of NTPs and elements of NDCs*

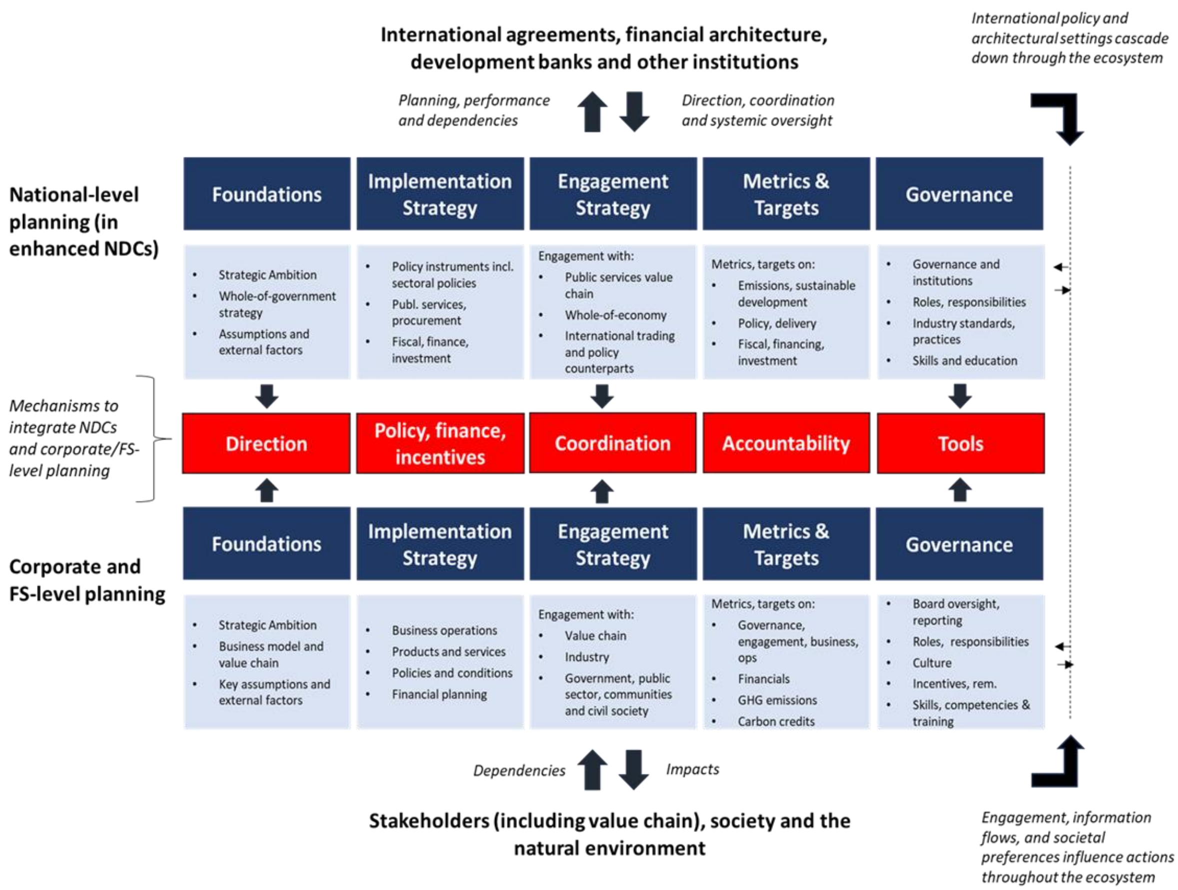
Elements of strategic national TPs in enhanced NDCs	Foundations	Implementation Strategy	Engagement Strategy	Metrics & Targets	Governance
Key content items	• Strategic Ambition • Whole-of-government strategy • Assumptions and external factors	• Policy instruments incl. sectoral policies • Publ. services, procurement • Fiscal, finance, investment	Engagement with: • Public services value chain • Whole-of-economy • International trading and policy counterparts	Metrics, targets on: • Emissions, sustainable development • Policy, delivery • Fiscal, financing, investment	• Governance and institutions • Roles, responsibilities • Industry standards, practices • Skills, education
Key content items in NDCs, provided for in the Paris Agreement	Targets on **mitigation** (Art. 4), and **adaptation** (Art. 7), in the context of development pathways; support to EMDEs, including **finance** (Art. 9), voluntary **cooperation** (Art. 6), **technology development and transfer** (Art. 10) and **capacity building** (Art. 11)	Domestic **mitigation measures** (Art 4); national adaptation plans, policies, programmes and actions (Art 9); accelerating, encouraging and enabling **innovation** (Art. 10); mobilizing **climate finance** including public funds (Art. 9)		Accounting for **anthropogenic emissions and removals** corresponding to Parties' NDCs (Art. 4)	**Governance** arrangements, including oversight by the Conference of the Parties, (Art. 15, 16); transparency mechanisms, including tracking of progress under the **enhanced transparency framework** for action and support (Art. 13); periodic global stocktakes (Art. 14)

Note: The content under each of the five pillars of NTPs is drawn from the disclosure framework developed by the GFANZ and TPT for corporates and financial sector. This content has been reinterpreted for NTPs.

Furthermore, to unlock an effective system-wide response, national and private sector TPs must connect in an *integrated transition planning ecosystem.* The theory of change behind the NTP outcome and impact (to be presented in the next report) is that integrated strategic transition planning can unlock a system-wide response and help to overcome market failures that hold back climate action today. In particular, integration between national and corporate/financial sector levels will contribute to addressing the informational, coordination and other market failures that stand in the way of a successful transition – in turn accelerating, crowding-in and scaling private finance to support whole-of-economy action.

Figure 2 illustrates how TPs from corporates, the financial sector, and the government can integrate and feed into each other, with NTPs incorporating mechanisms to direct, finance, incentivise, coordinate and enable action on climate and other sustainable development goals across the economy.

Figure 2. *An integrated transition planning ecosystem*



Note: The content under each of the five pillars of TPs for corporate and financial sector is drawn from the disclosure framework developed by the GFANZ and TPT.

The key elements of an effective national transition approach, and the mechanisms for integration are elaborated below. The authors will develop this content further, also considering approaches taken by the Just Energy Transition Partnerships and other similar platforms and initiatives (e.g., climate prosperity plans). Figure 3, at the end of this section, summarises the mechanisms for integration and how they can be incorporated under each of the five pillars of NTPs proposed above.

Foundations

Enhanced NDCs would articulate a national Strategic Ambition towards a just, equitable, low emissions and climate resilient economy, aligned with international commitments and domestic sustainable development and growth priorities. The government would embed this ambition in its overarching national strategy. Multilateral policies and responsibilities provide important context (e.g., EMDEs' access to financial and other support from AEs).

<u>Mechanism for integration: Direction</u>. Cascading national Strategic Ambition throughout the economy would set a clear direction, helping to align action, and giving private agents confidence to invest. Insights on private actors' policy and technological dependencies, and financing needs, would inform government policy and support optimal allocation of public resources and capital.

Implementation Strategy

Working with industry and other stakeholders, national strategy would be reflected in sectoral policies and pathways, and regulatory settings. As part of this, the government would determine measures to accelerate innovation in key sectors, and to align national infrastructure and public services with its ambition. The scope of policy instruments could span those in the OECD's Climate Actions and Policies Measurement Framework. A comprehensive fiscal, financing and investment plan would underpin the Implementation Strategy.

Mechanism for integration: Policy, finance and investment**.** Well-designed policy, regulation and incentive structures would channel private actors' behaviour towards the Strategic Ambition. Complementing this, clarity on the government's investment plan – including targeted public finance, informed by real economy financing needs – would help to crowd-in private finance. IMF highlights the importance of public-private risk sharing, especially in EMDEs. Development banks and other public finance institutions would play a key role.

Engagement Strategy

Engagement is key to delivering a truly integrated ecosystem. The government would develop plans to engage at every level: suppliers and consumers of public services; stakeholders across the economy, including communities and households; and trading partners and international policymakers.

Mechanism for integration: Coordination. Mechanisms for public-private coordination and collaboration – e.g., platforms and taskforces – would be especially important, to reduce uncertainty and build buy-in. For example, public-private co-creation of sectoral pathways would set a common direction, while also identifying industry-specific challenges. Targeted consultation could help the government design and sequence interventions.

Metrics and Targets

The government would report on metrics and targets that reflect the national Strategic Ambition. These would incorporate indicators linked to emissions reduction and other commitments. Other metrics may also be reported – e.g., performance indicators associated with key policies, investments or initiatives identified in the plan.

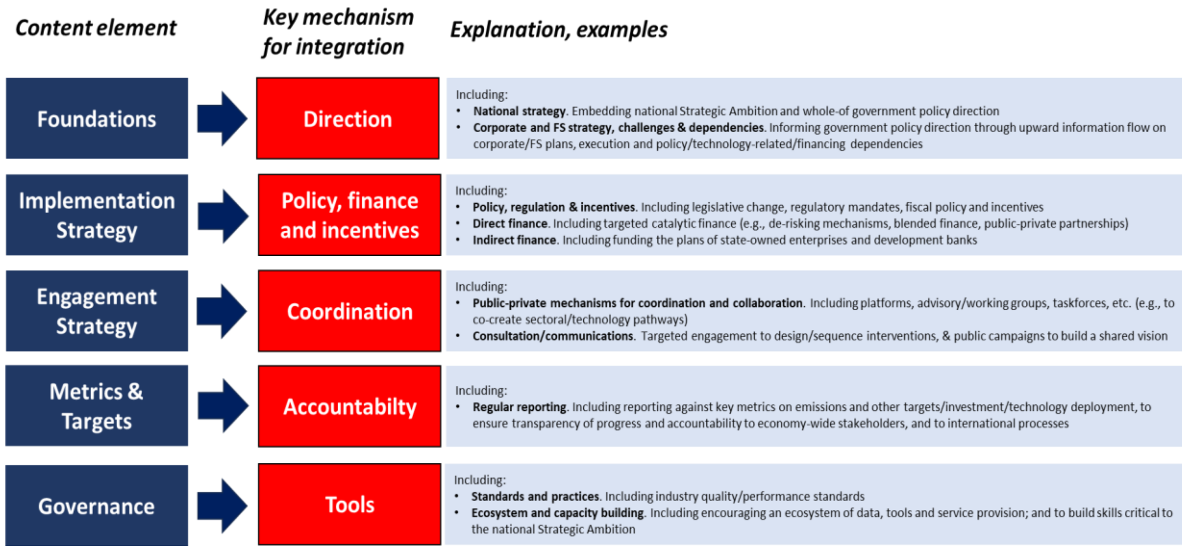
Mechanism for integration: Accountability. Regular reporting would help to ensure transparency of progress, supporting accountability to economy-wide stakeholders (and international processes). This would in turn help to build and maintain societal trust.

Governance

This pillar relates to arrangements for delivery, oversight, and scrutiny of the TP. As part of this, governments would allocate clear roles and responsibilities. Given the centrality of detailed investment plans, finance ministries would play a core role.

Mechanisms for integration: Tools. It would be important to build a supportive environment for private actors to contribute to the national Strategic Ambition, including by encouraging aligned industry standards and practices. The national TP would also provide a 'fixed point' for the development of a capital markets ecosystem of data, taxonomies, benchmarks, analytical tools, metrics, and methodologies – helping to reward ambition.

Figure 3. *Mechanisms for integration*



Benefits of NTPs and integrated planning

With these features, an integrated transition planning ecosystem could help to address some of the externalities and informational and coordination failures set out earlier:

- ***More targeted resource and capital allocation – improving innovation and productivity, and leveraging synergies, co-benefits, and positive network effects***. Better information flow, and mechanisms for coordination and support, would facilitate allocation of resources and capital to their most productive use, helping the government meet its commitments and objectives. This could include financing of infrastructure, innovation, and the scaling of climate solutions. IPCC observes that policy tailored to national circumstances and directed towards innovation and capacity building can better support the transition.[xxvi]

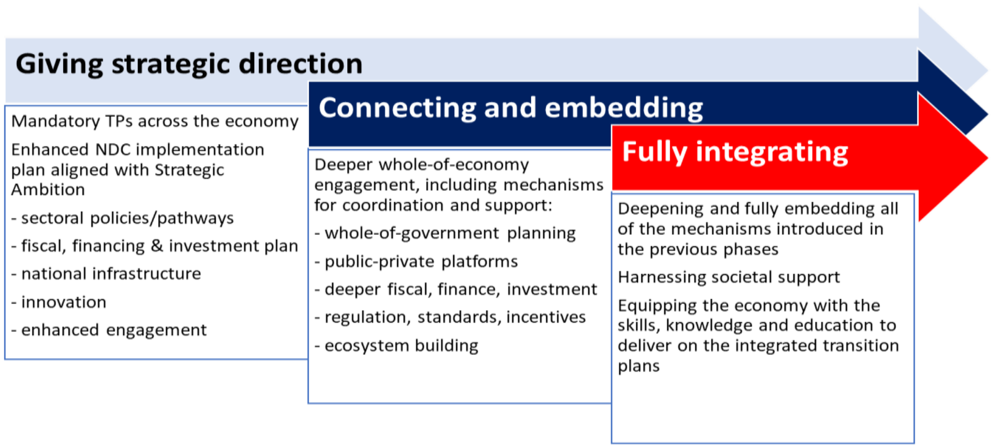
- ***Less uncertainty – improving access to finance, lowering the cost of capital, and reducing systemic risk***. Aligning policy and incentives with a clear Strategic Ambition would give capital providers greater confidence to commit private finance. Sovereign and corporate borrowers, including in EMDEs, would have better access to finance, and a lower cost of capital. Furthermore, creating the conditions for timely and decisive climate action, would reduce future fiscal costs and systemic risks.

- ***Greater trust and societal buy-in***. A 2024 global study revealed broad-based public support for climate action across 125 countries.[xxvii] Governments have an opportunity to harness this support, amplifying the impact of both public and private sector action.

To achieve these outcomes, the government needs to play a decisive, but balanced, role. By setting a clear direction and coordinating climate action, the government would equip private actors to take better informed decisions. Equally, public-private coordination and cooperation cannot become a vehicle for institutionalised lobbying and private self-interest. Careful monitoring and governance of integration mechanisms would mitigate this risk.

Finally, given the scale and complexity of system transformation, integrated transition planning will necessarily be a dynamic and iterative process. Figure 4 illustrates a potential *phased* approach. In the short term, the emphasis could be on enhancing the strategic orientation of NDCs, elaborating policies and pathways and detailed investment plans aligned with a clear Strategic Ambition. The government could then deepen integration over time. This brief does not suggest specific timelines for each phase. However, early action would bring forward the outcomes described above, in turn accelerating progress towards a whole-of-economy transition.

Figure 4. *Phasing-in an integrated ecosystem*



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