# IISD-GSI support for Fossil Fuel Subsidy Reform and Clean Energy Transition

**Key results:**

- National and international reform of Fossil Fuel and Electricity Subsidies supported, including through the "Friends of Fossil Fuel Subsidy Reform Group".
- National and international support mobilised for efficient pricing and taxation of fossil fuels.
- Fossil fuel subsidy Swaps and private sector investment promoted, with a focus on transition to clean energy in emerging economies.

**Justification for support:**

Subsidies continue to support fossil fuel use in countries around the world, increasing demand and holding back the take-up of clean energy – renewable energy and energy efficiency. But the reform of subsidies – along with increased carbon or energy taxation of fossil fuels – can yield significant extra public finance. An innovative mechanism championed by Denmark – the clean energy subsidy "Swap" – is starting to be implemented and considered in many countries. But the scale-up of clean energy is also constrained by inadequate experience, vested interests, supply chains and constraints on finance in emerging and other developing economies. Public money from subsidy reform or increased fossil fuel taxation can be used to leverage the private sector investment in clean energy vital to this scale-up. The International Institute for Sustainable Development (IISD) is an independent not-for-profit think tank that champions sustainable solutions to 21st century problems. The IISD Global Subsidies Initiative (GSI) supports international processes, national governments and civil society organisations to align subsidies with sustainable development and has been at the leading edge of efforts to support subsidy reform since 2005.

**Major risks and challenges:**

Key risk factors include vested interests in traditional energy solutions; governments that may be reluctant to listen to the advice of external partners in politically sensitive matters such as subsidy reform; reluctance to allocate public resources to incentivise private sector action; scepticism over potential socio-economic consequences and civil society reactions to subsidy reform; and potential challenges in upscaling fossil fuel subsidy reform and taxation interventions in a crowded climate change mitigation and clean energy development arena with many partners and initiatives and thus competing demands on decision makers' attention.

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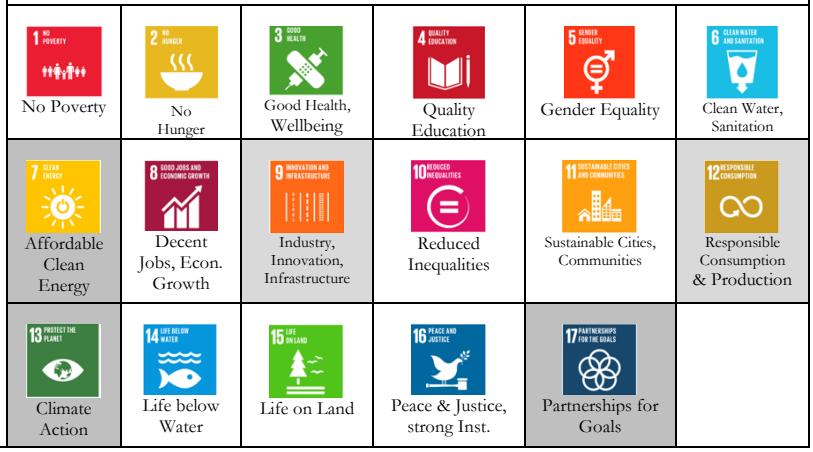
|---|---|---|---|---|---|---|
| **File No.** | F2 2019-15457 | | | | | |
| **Country** | Global | | | | | |
| **Responsible Unit** | MKL with the Ministry of Energy Utilities and Climate (MEUC) | | | | | |
| **Sector** | Climate and energy | | | | | |
| **Partner** | IISD | | | | | |
| *DKK mill.* | **2019** | **2020** | 2021 | **2022** | **2023** | **Total** |
| **Commitment** | **20** | **0** | **0** | **0** | **0** | **20.0** |
| **Disbursements** | **10** | **0** | **5** | **4.795** | **0** | **19.795** |
| **Duration** | November 2019-October 2023 (4 years) | | | | | |
| **Previous grants** | September 2006, DKK 4 mill.; October 2008, DKK 8.7 mill.; November 2010, DKK 8.8 mill.; December 2012, DKK 14.8 mill.; December 2013, DKK 5 mill.; December 2016, 5 mill. | | | | | |
| **Finance Act code** | 06.34.01.70 Klimapulje | | | | | |
| **Head of unit** | Henriette Ellermann-Kingombe | | | | | |
| **Desk officer** | Bo Jul Jeppesen | | | | | |
| **Financial officer** | Kasper Thede Anderskov | | | | | |

**Relevant SDGs**




**Strategic objectives:**

Reduced greenhouse gas emissions and other benefits including increased energy security.

**Justification for choice of partner:**

IISD-GSI's unique role and track record on subsidy reform on the international arena, its long-standing engagement with emerging economies that are also Danish priority countries, its focus on promoting the transition to clean energy and low carbon development, and its flexibility in coordinating with other Danish supported initiatives

**Summary:**

Single partner project with the outcomes: 1) National and international reform of Fossil Fuel and Electricity Subsidies advanced, including through the Friends of Fossil Fuel Subsidy Reform Group; 2) National and international support mobilized for efficient pricing and taxation of fossil fuels; 3) Fossil fuel subsidy Swaps and private sector investment promoted, with a focus on transition to clean energy in emerging economies.

**Budget in DKK million**

| | |
|---|---|
| Output 1.1: International processes and organizations support the inclusion of subsidy issues in international processes and forums. | 3.040 |
| Output 1.2: Policy-makers in target countries being (better) able to prepare and plan reform policies. | 2.130 |
| Output 1.3: Non-government actors at international and at national levels, including CSOs and the private sector, take part in efforts to enable sustainable subsidy reforms. | 0.630 |
| Output 2.1 Efficient pricing and energy/carbon tax reform promoted nationally and internationally, based on successful experience in the Nordic region and elsewhere. | 1.200 |
| Output 2.2 Efficient pricing and energy/carbon tax reform undertaken in at least 1 jurisdiction. | 3.900 |
| Output 3.1 A practical taxonomy of Swaps and guidance on how they can be designed, disseminated and implemented. | 3.700 |
| Output 3.2 Swaps are promoted and advocated focusing on 3 emerging economies. | 1.400 |
| Output 3.3 Environment for PSICE improved, notably for employing domestic finance in emerging economies (but also assessing opportunities for international organisations). | 1.200 |
| Output 3.4 Increased PSICE in 3 emerging economies from public money from Swaps or other project outputs. | 1.300 |
| IISD Administration (7%) | 1.295 |
| MFA Review | 0.205 |
| **Total** | **20.000** |

Ministry of Foreign Affairs of Denmark (MFA)
Danish Ministry of Climate, Energy and Utilities (MCEU)

# IISD-GSI support for Fossil Fuel Subsidy Reform and Clean Energy Transition 2019-2023

# Development Engagement Document

**Final**

**5 December 2019**

Ref: F2 2019-15457

# Indhold

# Abbreviations and Acronyms

| | |
|---|---|
| AMG | MFA/Danida Aid Management Guidelines |
| CCEE | Copenhagen Centre on Energy Efficiency |
| CEM | Clean Energy Ministerial |
| COP | Conference of the parties (under the UNFCCC) |
| $CO_2$ | Carbon dioxide |
| CTCN | Climate Technology Centre and Network |
| DAC | Development Assistance Committee (OECD) |
| Danida | Brand name for Danish international development assistance, under the Ministry of Foreign Affairs of Denmark |
| DEA | Danish Energy Agency |
| DEPP | DEA Energy Partnership Programme |
| DKK | Danish Kroner |
| EE | Energy Efficiency |
| ELP | Economic Law and Policy |
| ESMAP | World Bank Energy Sector Management Assistance Program |
| EUDP | Danish development and demonstration programme for energy technology |
| F2 | MEUC and MFA electronic archive system |
| FFS | Fossil Fuel Subsidy |
| FFSR | Fossil Fuel Subsidy Reform |
| FFFSR | Friends of Fossil Fuel Subsidy Reform |
| G20 | The Group of Twenty (leading World economies) |
| GCF | Green Climate Fund |
| GEF | Global Environment Fund |
| GHG | Green House Gas |
| GTF | Global Tracking Framework |
| GSI | Global Subsidies Initiative |
| IEA | International Energy Agency |
| IISD | International Institute for Sustainable Development |
| IRENA | The International Renewable Energy Agency |
| MEUC | Danish Ministry of Energy Utilities and Climate |
| MFA | Ministry of Foreign Affairs of Denmark |
| MKL | MFA Department for Multilateral Cooperation and Climate Change |
| MTS | Mid Term Strategy |
| NAMA | Nationally Appropriate Mitigation Actions |
| NAP | National Adaption Planning |
| NDC | Nationally Determined Contribution |
| NGO | Non-Governmental Organization |
| ODA | Official development assistance, as defined by OECD DAC |
| OECD | Organisation for Economic Co-operation and Development |
| P4G | Partnering for Green Growth and the Global Goals 2030 |
| PPCA | Powering Past Coal Alliance |
| PSICE | Private Sector Investment in Clean Energy |
| PV | Photo voltaic |
| RE | Renewable Energy |
| SDG | Sustainable Development Goal |
| SEforALL | Sustainable Energy for All – the formerly used acronym was SE4ALL |
| SMART | Specific, measurable, attainable, relevant, timebound |
| SWOT | Strengths weaknesses opportunities and threats |
| ToC | Theory of Change |
| TQS | MFA Department for Technical Quality Support |

| | |
|---|---|
| TSO | Transmission service operator |
| UDP | UNEP DTU Partnership |
| UN Environment | United Nations Environment Programme – the previously used acronym was UNEP |
| UNFCCC | United Nations Framework Convention on Climate Change |
| UPR | The Danish Council for Development Policy |
| USD | United States Dollar |
| WB | World Bank |
| WHO | World Health Organization |
| WRI | World Resources Institute |

# 1. Introduction

All scenarios, which see the world meeting the Paris Agreement include very large upscaling of clean energy (renewables and energy efficiency). Yet commitments in the existing Nationally Determined Contributions (NDCs) under the Paris Agreement on climate change are inadequate even if they were all to be met. Countries around the world continue to support fossil fuels, through various subsidy mechanisms to both consumers and producers of fossil fuels including by levying taxes on energy, which are inadequate to cover the external costs resulting from local and global air pollution and other environmental impacts, including climate change. The move to clean energy will require a major shift in investment, away from fossil fuels and traditional financing models and recipients. In countries with mature supply chains and policy environments, the private sector can invest in clean energy with certainty and experience. In other countries – notably in emerging and developing economies – there generally remains a need for public finance to play a major role for pilot projects and in scaling up investment until clean energy investments are seen as low risk. An innovative mechanism, proposed and championed by Denmark, is that of the clean energy subsidy "Swap", whereby some of the money saved from subsidy reform, or raised from increased carbon or energy taxation of fossil fuels, is reallocated to advance and support investment in clean energy. Against this background, the proposed project is relevant in a global context and it is a good match with the climate change action goals and the SDGs that the Danish Climate Envelope is intended to address.

The combined impact of fossil fuel subsidy reform (FFSR) and an increase in fossil fuel taxation could do three things: 1) save and raise money for governments; 2) reduce emissions; and 3) provide upfront and ongoing domestic resources to fund sustainable development and the sustainable energy transition. Currently consumer and producer fossil fuel subsidies stand at around USD 425 billion annually and although consumer subsidies have decreased due to a combination of lower oil prices and active reforms, it is also estimated that overall effective gasoline taxation decreased by 13.3% from 2003-2015. However, through a combination of fossil fuel subsidy reforms and increases in fuel taxation, $CO_2$ emissions could be reduced by 23% globally and raise much needed revenue to governments (2.6% of global GDP). For example, India and Indonesia both saved around USD 15 billion in 2015 from FFSR. Almost 70 countries included either FFSR or fuel taxation in their NDC, many more countries might consider including these fiscal policy instruments in the future. A Talanoa dialogue[1] style on fossil fuel subsidy reform and fossil fuel taxation would enable the sharing of stories between countries who have made the link between these fiscal instruments of fossil fuel subsidy reform and fossil fuel taxation, and the implementation of improved government revenues, delivering the Paris Agreement and the SDGs.

[1] See also IISD-GSI's submission to the Talanoa Dialogue (https://www.iisd.org/gsi/policy-briefs/fossil-fuel-subsidy-reform-and-taxation-stories-success-talanoa-dialogue)

## 2. Summary of Issues to be addressed and Institutional Context

The International Institute for Sustainable Development (IISD) is an independent not-for-profit think tank that champions sustainable solutions to 21st century problems. IISD's mission is to promote human development and environmental sustainability. The IISD Global Subsidies Initiative (GSI) supports international processes, national governments and civil society organizations to align subsidies with sustainable development and has been at the leading edge of efforts to support subsidy reform since 2005. The IISD-GSI work on FFSR (fossil fuel subsidy reform), Swaps, and PSICE (private sector investment in clean energy) is part of the IISD-GSI Business Plan 2018-2020: Sustainable Reforms to Support the Energy Transition.

The "Friends of FFSR" (FFFSR) group of 9 non-G20 countries continues to be the pre-eminent diplomatic group promoting fossil fuel subsidy reform in international processes and forums. It is funded variously by its developed country members (Norway, Sweden, Switzerland, New Zealand and Finland, in addition to Denmark) and IISD-GSI has provided a paid support function for the past several years. Annual work plans are set by the 9 members.

During the UN HLPF meetings in New York in July 2018, IISD-GSI launched its report "Getting on Target: Accelerating energy access through fossil fuel subsidy reform" during an event organised with the FFFSR. The report and the event highlighted that the amount spent globally on FFS is 7.5 times that needed to deliver universal access; that FFS are highly inefficient and often an unjust way to deliver increased access; and that targeted or "smart" subsidies looking at transport, lighting or cooking services rather than fuels can boost sustainable energy access.

A range of modelling studies and empirical investigations have shown that consumer FFSR could reduce GHG emissions globally by up to 10%, with the inclusion of producer subsidies adding a further 2%. While there is considerable uncertainty in these estimates, it is accepted that FFSR has significant potential to mitigate GHG emissions, including in the short-term and with a positive financial impact. The IEA put FFSR as one of the 4 key early actions needed in the period 2015-20, and IISD-GSI modelling has shown that investing 30% of savings into clean energy would raise average GHG reductions from 11% to 18% in 20 countries. Environmental tax reform can have a similar order of impacts. A key challenge in 2019 is to encourage countries to include FFSR and tax reform, ideally with reinvestment or "swaps", in their second generation NDCs.

The existing Danish programme of support to World Bank-ESMAP and to IISD-GSI has raised policymakers' awareness of clean energy subsidy Swaps, internationally and at national level. To support further implementation and to focus on where fiscal and GHG emission savings would be highest, there is a need to focus on Swaps into on-grid electricity in emerging economies. Expanding Swaps into energy efficiency and continuing to support Swaps for off-grid electricity in other countries, is also needed.

FFSR, Energy Taxation debates, Swaps and Private Sector Investment in Clean Energy (PSICE) are all ongoing but linking them together has the potential to significantly increase the pace and scale of impact. While there is discussion between governments on setting fiscal policy and with investors and developers, this interaction can be strengthened and deepened, with the aim of making fiscal policy reform and the reallocation of additional revenues more supportive of the needs of PSICE.

Socio-economic benefits of subsidy reform and increased renewable energy (RE) deployment and energy efficiency (EE) improvements can be seen as relevant factors in strengthening resilience and mitigating against conflicts over energy poverty and access, unemployment - and potentially this could have a positive contribution towards stemming migration.

There is a strong potential for capacity development of the public sector to enable and facilitate subsidy reform and to use public funds to leverage private funds for clean energy investment through Swaps. IISD-GSI works closely with emerging and developing economies, including India and Indonesia for over 5 years and has increasing teams in each country; it also has strong experience and knowledge in many other countries including Bangladesh, Egypt, Mexico, Nigeria and South Africa, several of which are Danish priority countries for bilateral energy cooperation. There are actual and potential synergies with several other Danish multilateral support initiatives (elaborated in section 3.).

Denmark has been one of the strongest supporters of IISD's Global Subsidies Initiative since its formation in 2005. Thus, Denmark has contributed DKK 41.3 mil. since 2006 to IISD-GSI Denmark's most recent and ongoing support to IISD-GSI is in the development engagement *"IISD-GSI Developing and Promoting Fossil Fuel Subsidy and Renewable Energy Swaps: Kerosene-to-solar swap business models in India and International Promotion & knowledge sharing"*, which started in 2017.

Danida conducted a review of its support to IISD over the period November 2014-February 2015, with the terms of reference beginning, *"The objective of the Review would be to assess the quality, relevance and impact of IISD's work under the Danish Framework agreement 2013-2014."* Within a general review of IISD, the GSI was selected as one of two areas of particular focus. Missions to visit GSI in Geneva and its programme in Indonesia were undertaken. Specific recommendations to the GSI were: (i) *"that the impact aimed for in GSI country activities is given more attention, including the potential positive social and environmental impacts, beyond the financial impacts of reform"*; and that (ii) *"more attention is given within the GSI to cooperation with partners"*. Remedial actions subsequently undertaken by the GSI have seen strong growth in the size of teams in India and Indonesia; the organic expansion of work out from a focus on the fiscal side of subsidies to include poverty and welfare, Just Transition and latterly energy policy, health issues and climate change; and new partnerships being formed with several types of organisations, including the Climate Parliament, collaborations with consortia of NGOs and the World Health Organisation (WHO). In response to the recommendations to IISD in general, a Theory of Change and Results-based Monitoring framework were set up for GSI, which has proven to be extremely valuable.

The experience from previous Danish support has informed the design of the proposed IISD-GSI work programme and the proposed Danish support project as summarised in Table 2.1 below:

## Table 2.1 - Experiences and lessons learned from previous Danish support and how this has informed design of the proposed work programme and project[2]

| **Experiences and lessons learned from previous Danish support** | **and how this has informed design of the proposed work programme** |
|---|---|
| It is now widely understood that fossil fuel subsidies are generally poor public policy and how to reform them is known generically | Focus should be on reform implementation, linking subsidies to other key priorities (poverty reduction, health, climate change, clean energy) |
| Much progress on reform of subsidies to transport fuels (gasoline and diesel), less on kerosene, LPG and electricity, producer subsidies | Programme will include strong focus on electricity. Programme will continue to explore, develop and socialise around the newer issues |
| Many organisations are supportive of subsidy reform, but few specialize in it | IISD-GSI will continue to act as a coordinator and facilitator, nationally and internationally |
| No single process or organization can act as a sole centre of excellence or progress on subsidies | IISD-GSI will continue to work across international processes and forums and to support efforts of IGOs, MDBs, UN Agencies, etc. |
| IISD-GSI's impact is highest in countries where it has established work programmes and where it acts as a "critical friend". Can take 18 months from inception to becoming effective | Continue work in India and Indonesia. Add at least one other Emerging Economy country work programme, in conjunction with Danish priorities |
| Success in subsidy reform in many countries still leaves tax rates below the external costs of energy (pollution, etc.); countries need revenue | Extend work programme to push for increased taxation on energy – very similar aims and modalities as IISD-GSI consumer subsidy work |
| Clean Energy Subsidy "Swaps" has proven to be an effective concept and there are many opportunities to replicate and upscale | Continue to push subsidy reform as a "means of implementation" for the SDGs, including tax reform too. Focus "Swaps" on on-grid electricity for maximum impact |
| Investment in clean energy remains a barrier to the energy transition in many countries, including key Emerging Economies such as Indonesia | Extend the work programme to focus specifically on increasing investment in clean energy, focusing on domestic private capital. Integrate fiscal reform to "Swaps" and increased investment |
| Good work programmes and initiatives are being carried out by many organisations internationally and internationally, some funded by Denmark | Extend existing working relationships and build key new ones. Ensure work of IISD-GSI builds on and complements that of others |

Amongst a series of activities to promote the concept of the "Swap" internationally and nationally was an Event at the Nordic Clean Energy Week in May 2018[3], at which results from work in India and in Zambia were presented and a video on "Swaps" was launched[4] . The first year's work included a focus on *Kerosene to Solar PV Subsidy Swap: The business case for redirecting subsidy expenditure from kerosene to off-grid solar*, culminating in the publication of a summary report of the work in August 2018[5] .

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[2] These experiences and lessons learned – and their influence on project design - have been summarised by Peter Wooders, Group Director, Energy and Programme Leader, Global Subsidies Initiative (GSI), IISD, based upon the cooperation with Denmark thus far. The points are in line with IISD-GSI's follow-up to the Danida Review of IISD in 2014-2015 and underpinned by documentation in several recent GSI publications (https://www.iisd.org/gsi/resources) and in reporting to the MFA on the Programme to Support Sustainable Energy via Fossil Fuel Subsidy Reform Swaps.

[3] https://www.iisd.org/gsi/subsidy-watch-blog/how-can-clean-energy-transition-be-funded-swap-subsidies-fossil-fuels-clean

[4] https://www.youtube.com/watch?v=_qPuOtZDJ00

[5] https://www.iisd.org/gsi/reports/kerosene-solar-pv-subsidy-swap-business-case-redirecting-subsidy-expenditure-kerosene-grid

Swaps in Bangladesh, Indonesia, Morocco and Zambia have also been assessed, including with work supported by the Nordic Council of Ministers. That work is seeking to take forward a swap to implementation, with Zambia chosen and the Swap to be focused on energy efficiency in the mining sector. Other results and achievements of IISD-GSI's recent work are summarised in Table 2.2.

Table 2.2 – Examples of IISD-GSI recent results and achievements.

- **Inventories:** The GSI supports OCED database by preparing FFS inventories for 6 countries: South Africa, Ireland, India, Australia, Norway and the UK; and prepares independent inventories of coal subsidies in Indonesia and energy subsidies in India, to form the basis of advocacy in 2017-18.
- **Peer review**: The GSI continues to support official peer reviews of FFS by G-20 and APEC countries, with China referencing GSI research in its published review, and the GSI participating in reviews for Taipei and Vietnam. The GSI also publishes guidelines on good practice for reviews.
- **Support to CSOs**: GSI directly supports over 10 national CSOs and research institutes over 2016/17 in countries including Bangladesh, India, Indonesia, Saudi Arabia and Venezuela, helping to build capacity and ensure quality control; while the GSI's CSO network shares information with 220 members from 100 organisations. The GSI helps to define advocacy stance of the C-20, resulting in strong calls on G-20 FFS commitments from more than 450 CSOs in over 60 countries.
- **Gender**: GSI supports pilots and full surveys on the gender differentiated impacts of household fuel subsidies in **Bangladesh**, **India** and **Nigeria**, providing technical support to CSO partners.
- **Outreach**: The GSI participated in over 30 events in 2016/17, including organising more than 10 international events and 10 in-country workshops, reaching over 180 country officials covering issues such as: international experience; climate impacts of reform; demand-led impact assessment advisory services; and demand-led communications advisory services.
- Targeted national work in a range of countries including:
  - **Canada**: GSI launches online FAQ on FFS and provides direct briefings to a range of government Ministries on a full FFS phase-out for Canada.
  - **Egypt**: GSI provides direct technical assistance to the Ministry of Petroleum through social impact assessments and leads two workshops on this theme with over 20 officials from Ministries of Finance, Petroleum, Interior Supply and Trade and Social Solidarity.
  - **India:** As mentioned in the foregoing, GSI networks with parliamentarians on shifting kerosene subsidies into solar PV subsidies, and partners with a Member of Parliament from the state of Odisha on piloting solar PV technology in his home constituency. GSI develops new knowledge through comprehensive primary research into electricity tariff changes in the state of Rajasthan.
  - **Iraq**: GSI supports the Ministry of Electricity to strengthen strategic communications based on extensive primary research (surveys, FGDs) and stakeholder analysis.
  - **Kurdistan**: GSI works with the regional government to develop a communication strategy on electricity sector reform, based on surveys, focus groups and expert interviews.
  - **Indonesia**: GSI provides direct technical support to the inter-Ministerial team planning LPG subsidy reforms and engages a wide range of ministries with new knowledge on coal subsidies, transport fuel pricing systems and linkages between subsidies and gender.
  - **Saudi Arabia**: GSI provides targeted inputs to government research institute KAPSARC on analysis of fossil-fuel pricing policies.
  - **Venezuela**: GSI provides technical assistance to a research team from a university and leads a seminar for 60 participants from ministries and other organisations.

Within the MFA, the process of developing the present proposed project is anchored in the Department for Multilateral Cooperation and Climate Change (MKL). Within the Danish Ministry of Climate, Energy, and Utilities (MCEU), the process is anchored in the International Department.

## 3. Strategic Considerations and Justification

**Strategic considerations:** The attractiveness of subsidy reform and increased taxation on fossil fuels arises from both an increase in economic efficiency and from a reduction in pollution. If money from increased public revenue can be at least partially reallocated into clean energy, the impacts can be significantly increased. Results from an IISD-GSI model showed an average reduction in GHG emissions of 11% across 20 countries if subsidies were removed, rising to 18% if 30% of the fiscal savings were invested into energy efficiency and renewable energy. Reducing GHG emissions and increasing investments in energy efficiency and renewable energy is a core objective of the Danish SDG 7 leadership. The increase in economic efficiency means that there is money available to compensate the poor and the vulnerable, which is a key concern in fiscal policy reform – increasing inequality and even poverty levels is clearly not a consequence that reformers are looking for. Experience in fiscal policy reform shows that it is necessary to understand the impacts of reform during the design phase, and that mitigating impacts requires alternative welfare mechanisms to be in place. Experience has also shown that communication and consultation can help avoid the protests, which have been traditionally associated with energy pricing increases: once people are aware of the costs of current policies and the opportunities from reform, they are more likely to support reform. A move to clean energy from fossil fuels can generally be expected to be positive for the poor and vulnerable. The challenge comes in those areas where fossil fuel production is a key part of the local economy, supporting direct and indirect jobs and livelihoods. The proposed work programme includes support to the just transition, aiming to give policymakers the confidence that moving away from fossil fuel production is an attractive option.

**Justification for the proposed project in relation to OECD DAC criteria:**

Table 3.1 - Project justification related to OECD DAC criteria

| Criteria | Justification |
|---|---|
| Relevance | Responds to the above-cited needs and priorities. Highly supportive of the transition to clean energy, with work on fiscal policy reform very supportive of Danish technical and investment work in the energy sector. Increased public finance can help countries meet the SDGs in both energy-related and other areas. |
| Impact | IISD-GSI's work has had an important role in energy subsidy reform over the past decade, with the savings from these reforms being orders of magnitude higher than reform expenditures. The newer areas of work proposed – Swaps, private sector investment in clean energy and increased fossil fuel taxation – all offer high potential impact. Pro-active use will be made of impact drivers identified in the Theory of Change (Section 4). |
| Effectiveness | IISD-GSI has a well-developed theory of change for how it can have impact, understanding where its interventions should be in international and national contexts. Close, longstanding relationships with other and larger organisations will be leveraged to get them to help deliver the aims of the proposed work programme. |

| | |
|---|---|
| Efficiency | IISD-GSI is a relatively small, not-for-profit organisation. It has a mature and experienced team within the GSI and wider energy programme, who work closely together and for who administrative requirements are kept low. The GSI is itself a strategic initiative, developing efficiencies from all work being supportive of other parts of work through the specialisation on subsidy and wider fiscal policy reform. |
| Sustainability | IISD-GSI has been a leading organisation in energy sector fiscal policy reform for over a decade, and has staff in some key countries, strong networks and many partners from the MDBs to institutions, consultancies and individuals. The proposed work is part of a wider, long-term programme which has been in place since 2005 and which is supported by a range of funders. |

The proposed support is highly relevant to Denmark's development priorities as described in the Danish Government strategy for development cooperation and humanitarian assistance, "The World 2030"[6] Thus, the project is directly relevant to the following SDGs to be pursued in transition and growth economies: SDG7 (affordable and clean energy); SDG9 (industry, innovation and infrastructure), SDG12 (responsible production and consumption), SDG 13 (climate action), and SDG 17 (partnerships). Also, the project is directly relevant to the following SDGs that are to be pursued vs. global public goods: (SDG7, SDG 13, and SDG 17). The project objectives and outcomes are also well aligned to priorities for funding under the Danish Climate Envelope[7]. The project is mainly aimed at climate change mitigation and reduced demand for fossil fuels should facilitate improved energy security. The savings from reduced fossil fuels subsidies can support socio-economic improvements in other sectors of the economy, contributing to sustainable development. One target could be increased expenditure to improve climate adaptation[8]; the project will not specifically target "swaps" into areas beyond clean energy but will use discussions with governments to give first level advice on how other expenditure options they are considering could be either positive or negative for Adaptation, pointing them also to key resources. A further indirect link to climate adaptation is that the clean energy promoted by the project may be more resilient to climate change than the traditional energy it replaces.

**Synergies with other Danish multilateral and bilateral sustainable energy cooperation:**
It is a Danish strength and interest that Denmark provides quality international development cooperation on climate change and sustainable energy, including the many initiatives under the Danish Climate Envelope. Denmark has demonstrated that it is possible to decouple economic growth, GHG emissions, and energy consumption, resulting in green growth. The Danish energy

[6] See Figure 1 page 10 in The World 2030.
[7] Guiding Principles for the Climate Envelope, Page 6: National strengths: Where possible, Climate Envelope funds will be targeted interventions where Denmark can add value in terms of national strengths, competences… Therefore, Climate Envelope interventions will thematically focus on energy including renewable energy, energy planning, energy efficiency and reform of policy frameworks. Page 6: Priority will be given to interventions where chances of achieving transformational change through accompanying changes in policy, markets or finance structures (both public and private) are largest.
[8] The main impact channels of the activities on Adaptation are the increased fiscal space from subsidy reform or increased taxation, which creates the potential for increased expenditure on clean energy, social measures, adaptation or other priorities. . While IISD-GSI do not think that an indicator of the positive impacts of the project on Adaptation can be usefully defined and data collected at this stage, IISD-GSI will be able to provide commentary on Adaptation impacts, at a qualitative level.

model has demonstrated the importance of a holistic view based upon an energy agreement as a roadmap for development of energy supply and demand; energy planning including models, scenarios and long-term planning; power generation system flexibility; integration of renewable energy; maintaining a very high security of electricity supply; public and private cooperation, public engagement and acceptance of renewable energy deployment, general public support for the energy sector transition, advancement of the Levelized Cost of Energy[9] approach; regulation and targeted investments in energy efficiency; and a broad and integrated one-stop-shop mandate of the Danish Energy Agency (DEA) to regulate and deliver on the above.

Where relevant, synergies with other Danish supported cooperation on sustainable energy will be emphasised in the project. There are potential synergies with Danish bilateral cooperation programmes supported by DEA on long-term energy planning, renewables integration, clean energy promotion and flexible management of fossil fuel generation, for example in India and Indonesia that are likely candidate target partner countries for this project. Potentials for such synergies also exist in other emerging economies including Mexico and South Africa, and in developing countries such as Bangladesh.

Also, possible synergies with Danish multilateral support including the following are being taken into account:

- The World Bank's Energy Sector Management Assistance Program (ESMAP – with which IISD-GSI works closely, also in the context of ongoing Danish support to both institutions.
- The International Energy Agency (IEA)'s Energy Efficiency in Emerging Economies Programme (E4).
- The Clean Energy Ministerial (CEM). IISD-GSI is already engaged with CEM (e.g. CEM 9 in Copenhagen and plans for CEM 10 in Canada).
- The "Mobilizing Clean Energy Investments in Growth Economies through the Multilateral Development Banks and OECD initiative".
- The Partnering for Green Growth and the Global Goals 2030 (P4G), where a number of innovative renewable energy initiatives are being financed which could provide examples for the policy and advocacy work of IISD/GSI as well as benefitting from the IISD/GSI research and networks.
- The Clean Energy Investment Coalition.
- The Powering Past Coal Alliance.
- The International Renewable Energy Agency (IRENA), including the recently approved Danish support for long-term energy planning.
- The Copenhagen Centre on Energy Efficiency and the UNEP DTU Partnership.

[9] "Levelized Cost of Energy" (LCOE) refers to the average cost of energy across a plant's lifetime. It is used to compare costs from technologies which may have very different shares of capital and operating costs, e.g. between wind (high capital cost and low operating cost) and natural gas (low capital cost and high operating cost). In effect, LCOE spreads the cost of capital across each unit of electricity generated by plant during its lifetime.

- The Climate Technology Centre and Network (CTCN) that is the operational arm of the UNFCCC Technology Mechanism.
- Other initiatives including partnerships with regional development banks such as the Inter-American Development Bank's Energy Savings Insurance (ESI) initiative and the African Development Bank's Sustainable Energy Fund for Africa (SEFA).

## 4. Theory of Change and key Assumptions

A graphic illustration of the Theory of Change (ToC) is shown in Figure 4.1. This Theory of Change governing the project scope is part of a wider Theory of Change being developed by IISD-GSI in a format that encompasses the scope of all their current and future likely actions and which is acceptable in formulation to a range of donors. So far, the IISD-GSI process has focussed on the change related to outcome 1 "National and international reform of fossil fuel and electricity subsidies advanced, including through the "Friends of Fossil Fuel Subsidy Reform Group". The format chosen is closely linked to an intervention logic which is consistent with the project ToC presented here and indeed, key indicators from this format have been used in selected indicators for this project especially for Outcome 1.

The project ToC narrative is briefly summarised below, as answers to key guiding questions in a ToC approach:

What are the changes this project wants to contribute to? The project will contribute to partner countries achieving low-carbon development, implementing the Paris Agreement on Climate Change and supporting more ambitious NDCs, and achieving SDG7, SDG12, SDG13 and other SDG targets.

How will change happen in the specific context? In concrete terms, the expected change will happen through partner countries implementing fossil fuel subsidy and energy taxation reforms that will reduce the emission of greenhouse gases and release funding for clean energy.

What is the role of the key project partners in the change process? The key role of IISD-GSI is to promote the fossil fuel subsidy reform agenda and build capacity for implementing these reforms at international level and at country level (through Ministries and other appropriate agencies).

What are the conditions that must be realized before the goal is achieved? The three key conditions are that: 1) Partner country public stakeholders understand value and co-benefits of FFSR and increased energy taxation and are willing and able to make challenging decisions; 2) Private sector partners see the value of engaging and are open to share views on challenges and opportunities and; 3) Partner country stakeholders willing to engage and sustain motivation for effective uptake of capacity development support and tools.

Who are the key partners that need to be engaged for this change to happen? The key partners are those in charge of fiscal reforms and the energy sector in the partner countries as well as the private sector, financing institutions and civil society (both at national and international level).

What is within and beyond the influence the key project partner? As illustrated in Figure 4.1, the creation of outputs is within the IISD-GSI sphere of control whereas the translation of these

outputs into outcomes is dependent on the three conditions mentioned above combined with an effective communication environment to allow advocacy and capacity development to be successful, noting that there are many actors involved and a range of vested interests.

What assumptions are relevant for the change to happen? See the list of assumptions and impact drivers in Box 4.1. below and in Figure 4.1.

### Box 4.1 - Key assumptions and impact drivers

**Key Assumptions:**

From inputs to activities:

- Efficient mobilisation, management and coordination of time inputs and engagement from donors and IISD-GSI.
- IISD-GSI's turnover and recruitment of staff ensures continuous capacity.
- Officials and stakeholders in partner countries are available and committed.

From activities to outputs:

- Sustained effective engagement with stakeholders in partner countries.
- IISD-GSI's ongoing strategic and effective engagement in the relevant international fora.

From outputs to outcomes:

- Partner country public stakeholders understand value and co-benefits of FFSR and are willing and able to make challenging decisions.
- Private sector partners see the value of engaging and are open to share views on challenges and opportunities.
- Partner country stakeholders willing to engage and sustain motivation for effective uptake of capacity development support and tools.
- IISD-GSI ability to ensure additionality and synergies in a crowded field with many actors.

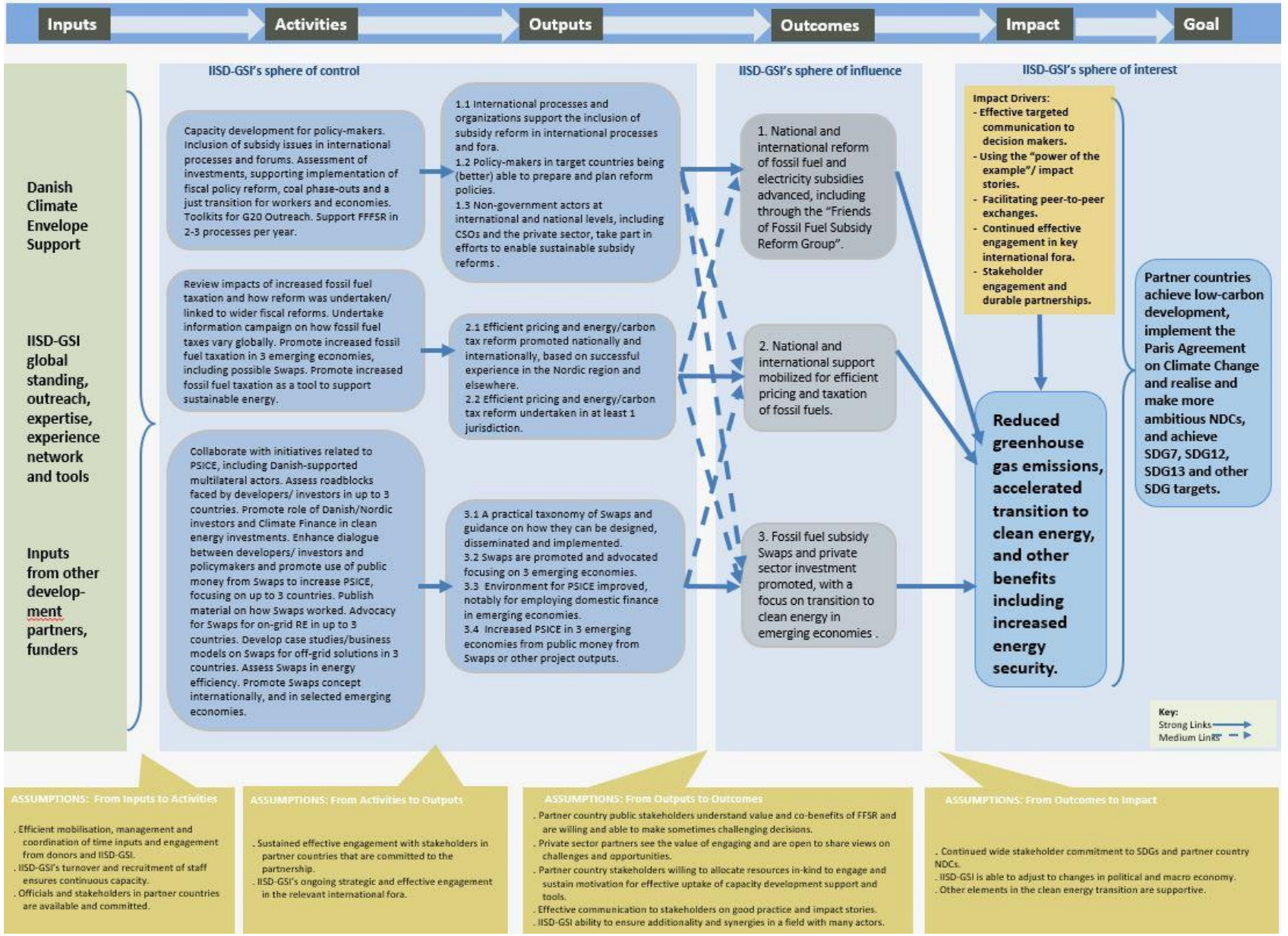
From outcomes to impact:

- Continued wide stakeholder commitment to SDGs and partner country NDCs.
- IISD-GSI is able to adjust to political and macroeconomic changes.
- Other elements in the transition in the clean energy are supportive.

Impact drivers:

- Effective targeted communication to decision makers.
- Using the "power of the example"/impact stories.
- Facilitating peer-to-peer exchanges.
- Continued effective engagement in key international fora.
- Stakeholder engagement and durable partnerships

Figure 4.1 – Theory of Change



## 5. Project Objective and Summary of Results Framework

Project objectives and a summary of the results framework at impact and outcome level is given in Table 5.1 below – the full results framework is found in Annex 3. The Climate Change Envelope has three core indicators to guide the design of activities:

- Impact: Tonnes of $CO_2$ equivalent reduced
- Impact: Number of people benefitting from the intervention
- Outcome: Low-carbon and climate resilient enabling environment (policies, legislation, systems, structures, assets) developed as a result of the intervention.

As mentioned in chapter 3, FFSR and increased energy taxation have the potential to significantly reduce GHG emissions. Reductions are more significant if savings or extra public revenues are invested in energy efficiency and renewable energy, but simply reducing or removing subsidies or increasing energy taxation has a significant effect on GHG emissions. Given the project's reliance on political support and flexibility in order to address demand for assistance, it is not possible to give an accurate estimate of expected reduced emissions. However, it is safe to assume success of the project will lead to noticeable reductions in GHG emissions, particularly in the longer term. The third indicator on enabling environment is directly applicable to the project, which focuses entirely on changing the enabling environment to foster better competitiveness of sustainable solutions, thereby increasing investments in particular in energy efficiency and renewable energy.

Table 5.1 – Summary results framework at impact and outcome levels

| | |
|---|---|
| Project Title | **IISD-GSI support for Fossil Fuel Subsidy Reform and Clean Energy Transition** |
| Project Objective | Reduced greenhouse gas emissions from accelerated transition to clean energy, and other benefits including increased energy security, via fossil fuel subsidy reform, taxation and increased investment in clean energy from governments and private sector. |
| Impact Indicator | Evidence[10] that the project has contributed to emission reduction and financial leverage – based on a best available evidence assessment and noting that the project will contribute to emission reductions linked to changes in fiscal policies and investments. However, impacts are likely to manifest themselves concretely in the longer term and beyond completion of the four-year project. Every effort will be made to assess emission reductions particularly those resulting from the country interventions[11]. At a global level, research finds that removal of FFSR |

[10] Best available evidence tools will include: a. Screening and review of evidence of governments committing to: i) FFSR; ii) energy taxation; b. Analysis of the extent to which IISD interventions are linked to or have contributed towards positive government action/commitment. The sources of evidence will include: NDC monitoring, updates and supportive studies; SDG 7 reporting; interviews held during in-country visits; and reporting from the press and other sources.

[11] Criteria for choosing target countries are detailed at the end of this Annex.

| | | | |
|---|---|---|---|
| | | alone could lead to emissions reductions equivalent to at least a quarter of all NDC pledges, made by countries, towards the Paris Agreement. The financial leverage of the cooperation in terms of its contribution to increase finance and investment in the areas covered by the partnership will be reported where possible and relevant. | |
| Baseline | Year | 2019 | Fossil fuel subsidy reform and to a lesser extent, fossil fuel taxation, are becoming recognised tools to reduce energy demand, increase energy efficiency, improve public budgets and reduce GHG emissions and other externalities. But the rate of progress needs to accelerate in the face of climate change and other sustainable development challenges. The level of awareness and uptake of how improved public finances from subsidy reform and increased taxation could increase private sector investment in clean energy remains low. |
| Target | Year | 2023 | More governments are aware of, considering or moving to implementation of fossil fuel subsidy reform and increased energy taxation, of the potential for these reforms to increase government savings and revenues, private sector investment in clean energy, and the mechanisms they can employ to support this investment. An important benefit of reforms is reduced GHG emissions and contributes to the achievement of partner country NDCs and the achievement of SDGs, particularly SDG 7, SDG 12, and SDG 13. |

| | | | |
|---|---|---|---|
| Outcome 1 | | National and international reform of fossil fuel and electricity subsidies advanced, including through the "Friends of Fossil Fuel Subsidy Reform Group". | |
| Outcome indicator | | Significant advancement in policies, coordination mechanisms, and regulatory frameworks (that have been improved with support by the project reflecting increased awareness of and action on the opportunities presented by FFSR to help meet energy and climate commitments and targets, including inclusion of FFSR in countries' NDCs or other national targets and plans, and including from a gender equity and poverty reduction perspective.) | |
| Baseline | Year | 2019 | Consumer subsidies to fossil fuels decreased dramatically in recent years (2012-2016) but upstream producer subsidies are estimated by the GSI to continue to remain at around USD 100 billion annually. The reduction in consumer subsidies was driven by reform efforts (at least 40 countries reformed to at least some extent in 2015-17) and by a decrease in oil prices. Lower global prices in the period put pressure on many governments to maintain and expand subsidies to fossil fuel producers. Recent increasing oil prices (2017-2018) will however make maintaining reforms and holding down subsidies a major challenge going forward in many countries. |
| Target | Year | 2023 | Evidence of increased awareness of the opportunity presented by FFSR to help meet energy and climate commitments and targeted adoption of at least 2 policy, regulatory or coordination measures in each of the partner countries. Analytical piece outlining the role of subsidies and financing for fossil fuels and justifying the need for reform and change. |

| | | | |
|---|---|---|---|
| Outcome 2 | | National and international support mobilized for efficient pricing and taxation of fossil fuels. | |
| Outcome indicator | | Contribution made to efficient pricing and fossil fuel taxation in at least two emerging economies. | |
| Baseline | Year | 2019 | The taxation of energy varies widely between countries but, on average, taxation rates have been at a stable level over the past 20 years. This is at odds with both the increasing understanding of the external costs caused by energy and taxation theory: many energy goods are inelastic and therefore are ideal candidates to help raise scarce public finance. |
| Target | Year | 2023 | Significantly increased international engagement on the potential of efficient fossil fuel pricing and use of taxation as a tool to support sustainable energy. Increased fossil fuel taxation promoted in 3 emerging economies, including possible Swaps. |

| | | | |
|---|---|---|---|
| Outcome 3 | | Fossil fuel subsidy Swaps and private sector investment promoted, with a focus on transition to clean energy in emerging economies. | |
| Outcome indicator | | Significantly increased understanding and uptake of mechanisms for Swaps and for using public money from Swaps to incentivise private sector investment in clean energy in participating emerging economies, including from a gender equity and poverty reduction perspective. | |
| Baseline | Year | 2019 | FFSR, energy taxation debates, Swaps and PSICE are all ongoing but awareness still too low for concerted action and for being effectively linked together, which has the potential to significantly increase the pace and scale of impact. |
| Target | Year | 2023 | Advocacy has increased awareness of Swaps and the potential for private sector investment for on-grid RE in up to 3 emerging economies. There is evidence of uptake on case study/business models for off-grid solutions in up to 3 countries, and Swaps are being developed outside the main grid. |

## 6. Budget

A budget not exceeding DKK 20.0 million will be made available through the Ministry of Foreign Affairs of Denmark (MFA) for the cooperation, sourced from the Danish Climate Envelope. Except for a budget of DKK 205,000 for a review (that will be managed directly by the MFA), the budget covers a grant contribution of DKK 19,795,000 to IISD, who will administer the funds under a Donor Agreement with the MFA.

IISD has developed the budget at output level - see Annex 4. IISD financial management will be in accordance with IISD's financial regulations. IISD's standard administrative charge Project Support Cost (PSC) is 7%, which as required by Danida guidelines has been budgeted on a separate budget line.

# 7. Institutional Arrangements, Management, Progress Monitoring and Reporting

The cooperation is a single partner project with IISD as the responsible implementing partner. Further information on the IISD organisational structure and staffing for project delivery and management can be found in Annex 10.

IISD is responsible for managing the project and ensuring full integration and alignment with the IISD Strategic Plan (which covers IISD's operations as a whole; the current version covers the period 2014-19 and a new one for the next 5 years is under preparation) and with IISD-GSI's business plan, its theory of change and results framework and the related monitoring and reporting system. IISD-GSI aims to visit all key donors at least annually and to exchange information on progress and opportunities on an ongoing basis.

The proposed 4-year Danish-supported project runs until late 2023 or well beyond the current business plan's end date of end-2020. IISD-GSI generally develop a new business plan 1 year before the end of the ongoing business plan, to enable potential donors to assess it, add their requirements and priorities to it, have the time to consider whether they wish to fund some or all elements, and to enable continuity of the work programme and delivery teams. The development of business plans follows an assessment of ongoing impact and an analysis of where there is the most potential for IISD-GSI to maximise its impact going forward; both the continuation of current work in current countries and processes and new activities are part of this assessment. IISD-GSI seeks to consult fully with key and potential donors. IISD-GSI's provision of a paid support function to the FFFSR group, which includes IISD-GSI's three largest donors (Denmark, Norway and Sweden), gives a particular opportunity for engagement with them on an individual and joint basis.

IISD-GSI will prepare a detailed workplan and budget on a calendar year basis that will be approved, together with the previous year's annual report, through IISD's internal management structure. The annual workplan will be developed within the framework of the overall 2019-2023 workplan and will specify outputs to be achieved, activities to be undertaken and the necessary staff and budget inputs including where relevant the source of funding. At the end of every year an annual report will be made that compares planned with actual progress both in terms of technical and financial progress. The indicators will be presented with a variance analysis against the annual targets that were expected. The report will outline unexpected challenges or opportunities that arose and present the action taken or to be taken to mitigate or take advantage of such changes. The report will be available within 4 weeks of the end of the year and sent to the Danish Ministry of Foreign Affairs and the Danish Ministry of Climate, Energy and Utilities. MEUC and the MFA will oversee progress through and receipt of the annual progress reports. IISD will be responsible for bringing to the MFA's attention any major strategic issues arising from the cooperation.

At minimum, it is proposed that an annual one-day consultative meeting will be held with donors, at least those that provide a significant contribution, to reflect over progress in the previous year and plans for the next year. The agenda will include: a review of the state of play on the issues IISD-GSI is working on (essentially the Outcomes and scope of this Project); a review of IISD-GSI's progress and impact over the past year; a review of collaboration with Danish-supported

organisations and initiatives and other important organisations and initiatives; a financial and operational review; planning the next year's work programme; any special agenda items (for example finalizing the choice of which further country(ies) to focus on, the mid-term Evaluation).

IISD-GSI has a Theory of Change, which includes Outputs, Immediate and Development Outcomes and Impacts. This covers work focused on subsidy reform and swaps and can easily be modified to include proposed work on energy taxation and will be extended to include investment.

For Danida's reporting purposes the key outcome and output indicators have been selected to document progress: are listed in Table 7.1 below.

Table 7.1 – Indicators for Danida's reporting purposes

| Indictor level | Reporting indicator |
|---|---|
| Impact | Evidence[12] that the project has contributed to emission reduction and financial leverage. |
| Outcome 1 | Significant advancement in policies, coordination mechanisms, and regulatory frameworks, including from a gender equity and poverty reduction perspective. |
| Output 1.1 | Availability of influential policy studies and international datasets that serve to promote inclusion of subsidy issues in international processes and forums. |
| Output 1.2 | Policy-makers in target countries are using GSI material (in an escalation from awareness to implementation). |
| Output 1.3 | The number of statements, agreements, events, formal coalitions or other joint public-facing activity from more than one institution in target countries. |
| Outcome 2 | Contribution made to efficient pricing and fossil fuel taxation in at least two emerging economies, including from a gender equity and poverty reduction perspective. |
| Output 2.1 | Efficient pricing and energy/carbon tax reform promoted nationally and internationally, based on successful experience in the Nordic region and elsewhere. |
| Output 2.2 | Efficient pricing and energy/carbon tax reform undertaken in at least 1 jurisdiction. |
| Outcome 3 | Significantly increased understanding and uptake of mechanisms Swaps and for using public money from Swaps to incentivise private sector investment in clean energy in participating emerging economies, including from a gender equity and poverty reduction perspective. |
| Output 3.1 | The taxonomy and guidance of Swaps is developed, used and improved. |
| Output 3.2 | Opportunities are identified for on-grid, outside the main grid and other Swaps. |
| Output 3.3 | Investment being increased as a result of PSICE related road-blocks are identified and unblocking solutions promoted. |
| Output 3.4 | Mechanisms for use of public and development finance from Swaps identified and promoted. |

IISD will be responsible for ongoing quality assurance and monitoring according to its procedures, and IISD may undertake reviews and evaluations of the project in accordance with IISD policy and practice. IISD-GSI's overall approach to project delivery is to understand where there are gaps and barriers to reform and to seek to overcome these. This can include a range of activities, from direct meetings with policymakers through events, communications strategy development, collaborating with or supporting other organisations to produce materials

[12] Best available evidence tools will include: a. Screening and review of evidence of governments committing to: i) FFSR; ii) energy taxation; b. Analysis of the extent to which IISD interventions are linked to or have contributed towards positive government action/commitment. The sources of evidence will include: NDC monitoring, updates and supportive studies; SDG 7 reporting; interviews held during in-country visits; and reporting from the press and other sources.

highlighting problems and solutions as part of campaigns, surveys and focus group discussions and targeted research and publications. A key element in capacity building is that IISD-GSI always works with local agents or partners in-country; they are already linked into policymakers and influence circles and are available on a continuous basis. All IISD-GSI research is open source and this is shared widely, for example through a quarterly newsletter to interested contacts and through a regularly-updated website (www.iisd.org/gsi) and social media feeds (for example @globalsubsidies, #stopfossilsubsdies).

An MFA mid-term review (MTR) of the project is planned. The responsible MFA unit (MKL) will initiate the review and draft the TOR in cooperation with MCEU and IISD. The MTR will specifically seek to assess the IISD results and impacts in the form of political uptake. The funds for the review are budgeted separately as these are managed by the MFA. MKL, MCEU and IISD will comment on the draft review report and IISD will - in liaison with MCEU and MKL - be responsible for responding to the recommendations of the review. The MFA shall have the right to carry out other technical missions that might considered necessary to monitor the implementation of the project. IISD will be informed of and consulted on terms of reference of such missions. After the completion of the project, MCEU and the MFA reserve the right to carry out evaluation of project activities

The plan for communicating results is provided in Annex 7.

## 8. Financial Management, Planning and Reporting

The Danish support is earmarked to the activities outputs and outcomes specified in Annex 3 and the accounts shall be drawn up to the same level of detail as done in the budget (annex 4). The funds shall be used exclusively to finance these activities and the indirect project support costs. Unspent funds including any accrued interest that remain after the expiry of the implementation period shall be refunded to the MFA.

The MFA will transfer funds to IISD on IISD's request. The planned disbursement schedule is: 2019: DKK 10 million; 2021: DKK 5.0 million; 2022: DKK 4.795 million. All funds are in DKK and will be converted to USD at the official rate at the time of payment. Currency fluctuations will be managed by scaling up or scaling down activities. Disbursement of the contribution shall be made upon written disbursement requests from IISD to the MFA in instalments based on the agreed disbursement schedule and the actual progress made of the project and shall take into account that payment shall be made in advance of the implementation of planned activities.

IISD will record and report the financial contribution in its financial management system and report it under its general financial reporting as a designated grant. Annual financial and progress reporting is submitted to MFA by 31 August. Project management and expenditures shall be governed by the IISD's Policy on Accounting and Financial Reporting (last updated May 2017). The Policy Statement from this: "Under the Canada Not-for-profit Corporations Act, IISD is required to maintain accurate books and records and prepares financial statements in accordance with Part III of the CPA Canada Handbook — Accounting Standards for Not-for-profit Organizations, which sets out the generally accepted accounting principles for not-for-profit organizations in Canada. "

IISD will also submit to the MFA and MEUC an annual audited financial report that includes a table showing the contribution from Denmark, funds carried forward from previous year, the annual expenses against the outputs--based budget and indicators and any unspent balance carried forward. It should be provided annually by 31 August. Audits are conducted by default in accordance with Canadian generally accepted auditing standards which includes CAS 805 Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement - which is an equivalent standard to International Standards on Auditing (ISA) 805 standard.

IISD shall undertake all procurement under the project in accordance with IISD's policies, rules and procedures for procurement (notably the Procurement Policy) and shall where relevant endeavour to include in the solicitations for services an assessment of potential sources of supply in the recipient countries for the project. It must be respected that flight tickets are on economy class only.

All payments received and made by IISD under this project shall be subject to internal and external audit as provided for in IISD's Policy on Accounting and Financial Reporting (last updated May 2017). Should an audit report contain observations relevant to activities funded under this project, such information, along with IISD's comments thereon, must be submitted without delay to MFA and MCEU.
For issues that are not covered in this document the MFA refer to the general requirements as stipulated in the Ministry of Foreign Affairs' Aid Management Guidelines and General Guidelines for Financial Management, Auditing and Accounting, that must be considered integral part of the conditions for this grant[13].

IISD is committed to maintaining standards of conduct that govern the performance of its staff including the prohibition of corrupt practices in connection with award and administration of contracts, grants, or other benefits, as set out in Policies on Anti-corruption, Code of Conduct and Conflict of Interest and Whistleblower, Safeguarding and Financial Regulations.

## 9. Risk Management

The risk matrix is given in Annex 5. There are three risk categories: contextual risks, programmatic risks, and institutional risks. The main contextual risks are vested interests and support for reforms in civil society and national governments. This is addressed by focusing on capacity development among decision-makers and awareness-raising. Project risks consist of uncertain long-term support and willingness to follow through with reforms. The programme will therefore focus on countries willing to engage actively with IISD. The main institutional risks are lack of donor coordination and inability to communicate the results. IISD manages donor

[13] www.amg.um.dk and www.amg.um.dk/en/Tools/financial-management/accounting-and-auditing

coordination and will emphasise communication of results to particularly civil society to ensure long-term support and understanding of the reforms.

# Annex 1: Context Analysis

| 1. Overall development challenges, opportunities and risks |
|---|
| **General development challenges:**<br>In the 3 years 2015-2017, consumer subsidies to fossil fuels as estimated by the International Energy Agency (IEA) decreased from USD 500 billion to around USD 260 billion. However, upstream producer subsidies are estimated by the GSI to continue to remain at around USD 100 billion annually. The reduction in consumer subsidies was driven by reform efforts (at least 40 countries reformed to at least some extent in 2015-17) and by a decrease in oil prices. Increasing oil prices will make holding down subsidies a major challenge in many countries. Lower global process in the period put pressure on many governments to maintain and expand subsidies to fossil fuel producers. Subsidy reform is now increasingly recognised as good policy in pursuit of sustainable development objectives. How to do it is broadly understood though there are challenges in overcoming decision maker's scepticism and fear of reactions from civil society that has been seen in many countries if subsidy reform was not accompanied with effective communication and having regard for the needs of the poorest segments of the population. Under sub-contract to, and working closely with, the World Bank's ESMAP programme, IISD-GSI have developed communications strategies in 7 jurisdictions, including Egypt and Iraq and currently in Guinea, Mali, Togo and the Lebanon. These strategies are based around evidence (from surveys, focus group discussions, etc.) and on an understanding of the political economy – developing the messages that will appeal to those opposed to the reforms. Also based firmly on evidence and analysis are the mitigation options needed to support poor and vulnerable communities and economic sectors. Here, a thorough knowledge of who are in poverty or close to it and how welfare could be delivered in alternative ways are needed, which generally requires working closely with government departments for Social Welfare. Interventions now increasingly revolve around supporting debate and implementation in countries and leveraging public funds through private sector action, and these are the key challenges that this project is intended to address. |
| **Status and progress in relation to SDGs:**<br>For SDG7 (affordable and clean energy): It is noted that the May 2018 joint tracking report is not very explicit on FFSR. A focus on fiscal policy reform and economic efficiency alone can ignore the need to increase access to modern energy services. During the UN HLPF meetings in New York in July 2018, IISD-GSI launched its report "Getting on Target: Accelerating energy access through fossil fuel subsidy reform" during an event organised with the FFFSR (**http://sdg.iisd.org/news/hlpf-side-event-highlights-the-potential-of-fossil-fuel-subsidy-reform-to-help-achieve-sdgs**). The report and event highlighted that the amount spent globally on FFSR is 7.5 times that needed to deliver universal access; that FFS are a highly inefficient and often unjust way to deliver increased access; and that targeted or "smart" subsidies looking at transport, lighting or cooking services rather than fuels can boost sustainable energy access.<br>For SDG 12 (Responsible consumption and production): Target SDG 12c is: "Rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions, in accordance with national circumstances, including by restructuring taxation and phasing out those harmful subsidies, where they exist, to reflect their environmental impacts, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities". SDG Indicator 12.c.1 is: "Amount of fossil fuel subsidies per unit of GDP (production and consumption) and as a proportion of total national expenditure on fossil fuels". IISD-GSI in conjunction with the OECD and with/for the Indicator Custodian (UN Environment), led the development of a methodology for reporting FFS in 2017-18. In September 2018, this methodology was approved by the IAEG (Inter-Agency Expert Group) and the Indicator upgraded from Tier 3 to Tier 2. With the methodology now approved, efforts to encourage and help counties across the world to report against the Indicator from 2020 will be a significant focus of IISD-GSI's work in 2019 and 2020.<br>For SDG13 (climate action): A range of modelling studies and empirical investigations have shown that consumer FFSR could reduce GHGs globally by up to 10%, with the inclusion of subsidies adding a further |

2%. While there is considerable uncertainty in these estimates, it is accepted that FFSR has significant potential to mitigate GHG emissions, including in the short-term and also with a positive financial impact (i.e. with negative abatement cost). The IEA put FFSR as one of the 4 key early actions needed in the period 2015-20, and IISD-GSI modelling has shown that investing 30% of savings into clean energy would raise average GHG reductions from 11% to 18% in 20 countries it assessed using its GSI-IF model in 2015. Environmental tax reform can have a similar order of impacts. A key challenge in 2019 is to encourage countries to include FFSR and tax reform, ideally with reinvestment or "swaps", in their second generation NDCs. With seed funding from Germany's BMU, IISD-GSI is repeating and extending the analysis of countries' potential savings using its GSI-IF model and will again use these results as part of outreach activities to encourage countries to include fiscal reform in their NDCs to be submitted in 2020.

**Political economy:**
The project will engage with the key political economy drivers of change (at political decision-making level and among practitioners) and build upon ownership and commitment in partner countries. That the political economy is key to successful FFSR has been recognised for many years – one of IISD-GSI's first reports on energy – "The Politics of Fossil-Fuel Subsidies" by Prof. David Victor was published in 2009; more recent work and findings were highlighted during the ESMAP Knowledge Exchange Forum on Energy Subsidy Reform held in Geneva in October 2018. One key analytical technique is to assess where stakeholders sit on a graph of influence and interest. A recent analysis by IISD-GSI in Indonesia showed for example that while the President was highly influential, promoting renewable energy was not high on his priority list; conversely, developers and foreign investors were both very interested but yielded little influence. That analysis has been used as a foundation for subsequent activities to help Indonesia move towards its target of 23% renewable energy by 2025.

***Key documentation and sources used for the analysis:***
Text inputs from IISD-GSI.
Material from the ESMAP Knowledge Exchange Frum in October 2018 in Geneva.
Energy Progress Report - tracking SDG7 progress (May 2018):
http://www.irena.org/publications/2018/May/Tracking-SDG7-The-Energy-Progress-Report
**SDG7: https://sustainabledevelopment.un.org/sdg7**
**SDG12: https://sustainabledevelopment.un.org/sdg12**
**SDG13: https://sustainabledevelopment.un.org/sdg13**
IRENA Global Energy Transformation report – a Roadmap to 2050 (April 2018):
http://www.irena.org/publications/2018/Apr/Global-Energy-Transition-A-Roadmap-to-2050

***Are additional studies / analytic work needed? How and when will it be done?***
No additional studies/analytic work is needed as part of the formulation phase, but IISD – and the proposed project – operate in an extremely dynamic context where new information is constantly made available from a wide range of sources, and flexibility over the four-year project implementation period will be important.

**2. Fragility, conflict, migration and resilience**

The target countries for this project are primarily emerging economies but work is also proposed in other developing countries (locations to be decided). IISD-GSI is currently working for the World Bank in Guinea, Mali and Togo on developing communications strategies to support electricity pricing reform proposals. The aim is to improve the financial health of utilities, creating fiscal space for increased development investment including in increasing electricity access beyond current figures of around 30%. Socio-economic benefits of subsidy reform and increased RE deployment and EE can be seen as relevant factors in strengthening resilience and mitigating against conflicts over energy poverty and access, unemployment - and potentially it could also have a positive contribution toward stemming migration where this is an issue.

***Are additional studies / analytic work needed? How and when will it be done?***
No additional studies or analytical work required.

**3. Human rights situation (HRBA) and gender**

IISD does not currently monitor the cross-cutting issues of human rights and gender equality as general practice but has found it more effective to look at these issues as a focus for specific projects. Thus, IISD has recently completed a 4-year research project on gender and FFSR. The 2016 study reveals that the impacts of energy

subsidies, the impacts of energy sector reform, and workable or appropriate mitigation measures associated with any FFS reforms are extremely context specific depending on the country, fuel type, income and education of women. Nonetheless, strong evidence indicates that in many countries a significant proportion of subsidy benefits are captured by well-off households, suggesting a general phenomenon of energy subsidy inefficiency if the desired policy objective is to target income and energy access benefits to women and men living in poverty. The report shows how especially poor women do not benefit from the current subsidies to energy. If subsidies and change in the subsidy regime are to help women, they need to be very carefully targeted. This would include consideration of measures such as cash transfers (often directly to women) or energy voucher or equipment sets for non-fossil energy or as targeted energy access subsidies via bank accounts (delinked from distorting market prices). The GSI Business Plan 2018-20 includes work on a Fair and Just Transition (within the energy sector). This workstream focuses on issues including job losses, poverty, gender empowerment and social safety nets. While access to affordable, reliable, sustainable and modern energy for all is a Sustainable Development Goal (#7), access to renewable energy is not a human right in itself. But given the role of sustainable energy as a broader enabler of human and economic development, it is strongly interconnected with basic rights such as the right to life, food, health, shelter, education, etc. The contribution to be made by the project in terms of capacity development and tools for more well-informed and transparent decision making in the energy transition, including better understanding of the socio-economic benefits of subsidy reform, will enable the duty bearers (i.e. the political decision makers and public authorities) to be mindful of the needs and priorities of end-users and ultimate beneficiaries at the household and enterprise level (the rights holders), particularly in the case of understanding gender equity impacts and opportunities that could arise across the project. For example, the project can highlight to governments the need to mitigate any negative impacts from rising fossil fuel prices from a gender perspective (for example cooking fuels). The project will also take those opportunities available to highlight to governments and the private sector the chance to better target domestic or private resources for multiple outcomes – such as the energy transition and poverty reduction and gender equity. For example, opportunities exist to better target fossil fuel subsidies towards those that need them most via energy access or social security subsidies directed towards vulnerable groups as seen in earlier swaps work in India with both a switch in government subsidies from kerosene to solar cooking subsidies, and better targeting of LPG subsidies towards poor women via female bank accounts and cash transfers. The human rights principles of participation, accountability, non-discrimination, and transparency will thus be supported. Regarding the cross-cutting concern about youth, the project's emphasis on RE deployment in the energy transition is directly relevant to employment generation.

***Are additional studies / analytic work needed? How and when will it be done?***

No additional studies or analytical work required.

**4. Inclusive sustainable growth, climate change and environment**

This project has a strong focus on sustainable growth and climate change mitigation. The inclusiveness is considered in the support of more well-informed energy planning and a holistic approach to the energy transition and its social-economic benefits, as well as partnership among different stakeholder groups including the private sector.

The project does not comprise any direct investments, and there are no direct negative environmental impacts. EIAs will be done as required by national legislation in partner countries for RE and EE investments that may take place as spin-offs from this project.

The project has a clear positive impact on the environment and natural resources, including reduced pollution and GHG emissions.

***Are additional studies / analytic work needed? How and when will it be done?***

No additional studies or analytical work required.

**5. Capacity of public sector, public financial management and corruption**

Capacity of the public sector for policy and decision making and enforcement is clearly an issue in the area of subsidy reform as reform agendas can be controversial and require robust governance that can withstand vested interests – legal and illegal - and public pressures. Public financial management that can provide transparency on subsidies and on the socio-economic benefits of reform are also of critical importance. Therefore, awareness-raising, capacity development, and "the power of the example" are important means to strengthen requisite

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| public sector capacities that are also better equipped to engage in effective partnerships with the private sector. Further, the reduction of subsidies can be an important contributor to reducing volatility of public budgets in both fuel importing and exporting countries. |
| |
| ***Are additional studies / analytic work needed? How and when will it be done?***<br>No additional studies or analytical work required. |
| **6. Matching with Danish strengths and interests, engaging Danish actors, seeking synergy** |
| The Danish Energy Agency (and other Danish energy institutions such as the transmission system operator Energinet) have strong competences based upon the Danish energy model. The foundation of the low-carbon transition in Denmark has been threefold: energy efficiency, renewable energy and system integration including electrification. Focusing on broader interactions and systems and the enabling environment, as opposed to individual components and concepts, is an important aspect of the Danish energy model 14, which is characterized by a holistic view of energy planning and establishing synergies between taxation schemes and policy support frameworks for renewable energy.<br><br>The Danish development and demonstration programme for energy technology (EUDP) supports new energy technology that can contribute to Denmark's goals in energy and climate change. The EUDP strategy 2017-2019 15 identifies Danish strongholds and business potentials in energy technology and energy-related related research and development. Similarly, the State of Green highlights areas of Danish comparative strength in clean energy sources and related areas such as energy efficiency, etc. and the Danish public and private actors who have particular expertise and experience in these areas. It is assessed that the outputs and outcomes of this proposed project will be of some interest to the Danish resource base. |
| - where we have the most at stake – interests and values,<br>- where we can (have) influence through strategic use of positions of strength, expertise and experience, and<br>- where we see that Denmark can play a role through active partnerships for a common aim/agenda or see the need for Denmark to take lead in pushing an agenda forward.<br>- Denmark is a global leader in many aspects of the green energy transition, including RE and EE. |
| - Brief mapping of areas where there is potential for increased commercial engagement, trade relations and investment as well as involvement of Danish local and central authorities, civil society organisations and academia.<br>- In the general area of the energy transition and climate change mitigation there are many opportunities for commercial engagement for the Danish resource base. |
| - Donor landscape and coordination, and opportunities for Denmark to deliver results through partners including through multilaterals;<br>- Other donors support IISD and the GSI and it is IISD's responsibility to coordinate donor support. In partner countries the effectiveness of donor coordination – including IEA, other inter-governmental organisations and the DEA - varies considerably, but IISD's ability to engage in fora and mechanisms that enhance coordination is and |

[14] The World Bank Regulatory Indicators for Sustainable Energy (RISE) in 2017 found that Denmark has the best framework conditions in the world when it comes to access to energy, energy efficiency and renewable energy. On a scale from 1-100, Denmark scored 100 in "energy access", 86 in "energy efficiency" and 94 in "renewable energy" – with a total of 94 points, Denmark received a world first place.

[15] https://ens.dk/sites/ens.dk/files/Forskning_og_udvikling/uk_total_final_eudp_strategi.pdf

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| will continue to be important in order to increase the leverage of its activities. |
| ***Key documentation and sources used for the analysis:***<br>State of Green<br>EUDP report |
| ***Are additional studies / analytic work needed? How and when will it be done?***<br>No additional studies or analytical work required. |
| **7. Stakeholder analysis** |
| The key partners/stakeholders in the project are briefly described in Annex 2 Partners. |
| ***Are additional studies / analytic work needed? How and when will it be done?***<br>Additional work will need to be done in selecting the participating countries beyond India and Indonesia. The criteria for country selection include stakeholder commitment to the objectives of the project, and the political economy analysis plays an important role as mentioned in the foregoing. |

## Annex 2: Partners

IISD-GSI is the implementing partner of choice for this project due to its unique role and track record on subsidy reform on the international arena and its long-standing engagement with emerging economies that are also Danish priorities. The proposed cooperation will be a continuation of ongoing Danish support during 2016-2019 that has i.a. developed and piloted the Swap concept.

Brief summary of key partner features:

| **Partner name** | **Core business** | **Importance of the project for the partner's activity-level** (Low, medium, high) | **Partner Influence have over the project** (low, medium, high) | **Partner's main contribution** | **Partner Capacity** | **Exit strategy** |
|---|---|---|---|---|---|---|
| The International Institute for Sustainable Development (IISD) | IISD is an independent think tank that champions sustainable solutions to 21st century problems. IISD's mission is to promote human development and environmental sustainability. The IISD Global Subsidies Initiative (GSI) supports international processes, national governments and civil society organizations to align subsidies with sustainable development. | High – the GSI initiative is highly dependent on donor support. | High – IISD-GSI manages the project. | International standing and reputation, expertise and experience, staff time inputs in-kind, effective communication of results, synergy with other international development partners and national partners in cooperating countries. | IISD-GSI has 17 experts working in the GSI team in Geneva, India, Indonesia and other countries and is backed-up by IISD's wider capacity of 125 staff.<br><br>IISD-GSI's in-country work relies on partnerships with key local institutes and individuals for impact. There is an established network with those who provide high quality and impactful work being retained for | No particular strategy required, but work planning must reflect the disbursement schedule by Denmark and other donors to ensure continuity and a well-planned conclusion of activities and outputs that depend on donor support. |

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| | | | | | further assignments. A critical factor is the influence local partners have with decision-makers. | |
| National Governments in partner countries | National authorities responsible for the energy transition and climate goals in partner countries. In countries such as India and Indonesia where IISD-GSI has been active for years, the partner agency mandates and goals are well known. | High – criteria for selection will include ownership and commitment to engage in reaching project objectives, actual or planned engagement with IISD, demonstrated political commitment to RE and EE, specific requests to IISD for support, quality of available data and information, etc. | Medium to high (for the project interventions in the partner countries). In particular the Ministries of Finance are expected to be crucial in driving the adoption of fiscal reforms for fossil fuels. | Political commitment, identification and appointment of key persons for sustained collaboration, time inputs in-kind, data, information. | The capacity of partner country government authorities will vary and in many cases be limited. The project's capacity development activities will address capacity and skill gaps that are critical for achievement of project objectives. | The exit strategies for the project in each partner country will need careful attention in the planning of activities and engagement with partners, in order to ensure uptake of knowledge products and tools, sustained commitment to implement long-term planning approaches and accelerated country level action on RE uptake and energy transition for a low-carbon development path, realising country NDCs, achieving national targets for SDG 7, 12 and 13, and achieving the benefits of fossil fuel subsidy reform and taxation. |

# Annex 3: Results Framework

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| Project Title | | **IISD-GSI support for Fossil Fuel Subsidy Reform and Clean Energy Transition.** | |
| Project Objective | | Reduced greenhouse gas emissions accelerated transition to clean energy, and other benefits including increased energy security, via fossil fuel subsidy reform, taxation and increased investment in clean energy from governments and private sector. | |
| Impact Indicator | | Evidence[16] that the project has contributed to emission reduction and financial leverage – based on a best available evidence assessment and noting that the project will contribute to emission reductions measured in tons of carbon dioxide equivalent linked to changes in fiscal policies and investments. However, impacts are likely to manifest themselves concretely in the longer term and beyond completion of the four-year project. Every effort will be made to assess emission reductions particularly those resulting from the country interventions[17]. At a global level, research finds that removal of FFSR alone could lead to emissions reductions equivalent to at least a quarter of all NDC pledges, made by countries, towards the Paris Agreement. The financial leverage of the cooperation in terms of its contribution to increased finance and investment in the areas covered by the partnership will be reported where possible and relevant. | |
| Baseline | Year | 2019 | Fossil fuel subsidy reform and to a lesser extent, fossil fuel taxation, are becoming recognised tools to reduce energy demand, increase energy efficiency, improve public budgets and reduce GHG emissions and other externalities. But the rate of progress needs to accelerate in the face of climate change and other sustainable development challenges. The level of awareness and uptake of how improved public finances from subsidy reform and increased taxation could encourage private sector investment in clean energy remains low. |
| Target | Year | 2023 | More governments are aware of, considering or moving to implementation of fossil fuel subsidy reform and increased energy taxation, of the potential for these reforms to increase government savings and revenues, private sector investment in clean energy, and the mechanisms they can employ to support this investment. An important benefit of reforms is reduced GHG emissions and contribution to the achievement of partner country NDCs and the achievement of SDGs, particularly SDG 7, SDG 12 and SDG 13. |

[16] Best available evidence tools will include: a. Screening and review of evidence of governments committing to: i) FFSR; ii) energy taxation; b. Analysis of the extent to which IISD interventions are linked to or have contributed towards positive government action/commitment. The sources of evidence will include: NDC monitoring, updates and supportive studies; SDG 7 reporting; interviews held during in-country visits; and reporting from the press and other sources.

[17] Criteria for choosing target countries are detailed at the end of this Annex.

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| Outcome 1 | | National and international reform of fossil fuel and electricity subsidies advanced, including through the "Friends of Fossil Fuel Subsidy Reform Group". | |
| Outcome indicator | | Significant advancement in policies, coordination mechanisms, and regulatory frameworks (that have been improved with support by the project reflecting increased awareness of and action on the opportunities presented by FFSR to help meet energy and climate commitments and targets, including inclusion of FFSR in countries' NDCs or other national targets and plans, and including from a gender equity and poverty reduction perspective). | |
| Baseline | Year | 2019 | Consumer subsidies to fossil fuels decreased dramatically in recent years (2012-2016) but upstream producer subsidies are estimated by the GSI to continue to remain at around USD 100 billion annually. The reduction in consumer subsidies was driven by reform efforts (at least 40 countries reformed to at least some extent in 2015-17) and by a decrease in oil prices. Lower global prices in the period put pressure on many governments to maintain and expand subsidies to fossil fuel producers. Recent increasing oil prices (2017-2018) will however make maintaining reforms and holding down subsidies a major challenge going forward in many countries. |
| Target | Year | 2023 | Evidence of increased awareness of the opportunity presented by FFSR to help meet energy and climate commitments and targeted adoption of at least 2 policy, regulatory or coordination measures in each of the partner countries. Analytical piece outlining the role of subsidies and financing for fossil fuels and justifying the need for reform and change. |
| Output 1.1 | | International processes and organizations support the inclusion of subsidy reform in international processes and forums. | |
| Output indicator | | Availability of influential policy studies, international datasets and activities that serve to promote inclusion of subsidy issues in international processes, statements and forums (where there is evidence that the studies, datasets and activities consolidate and/or advance earlier information and respond to the Friends annual work plan[18] in particular). | |
| Baseline | Year | 2019 | International processes and organisations are gradually including subsidy issues in their deliberations and advice but not as a routine and not a rate or depth that is sufficient to catalyse fast change and without the support of policy studies and international data sets. |
| Target | Year 1 | 2020 | At least one additional GSI-supported influential statement, policy study or international dataset is produced as a result of international processes or fora in support of fossil-fuel subsidy reform or the need for sustainable reform (that consolidates and/or advances earlier activities). |

[18] See the 2018 work plan and budget for the Friends of Fossil Fuel Subsidy Reform in Annex 12

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| Target | Year 2 | 2021 | At least one additional GSI-supported influential statement, policy study or international dataset is produced as a result of international processes or fora in support of fossil-fuel subsidy reform or the need for sustainable reform (that consolidates and/or advances earlier activities). |
| Target | Year 3 | 2022 | At least one additional GSI-supported influential statement, policy study or international dataset is produced as a result of international processes or fora in support of fossil-fuel subsidy reform or the need for sustainable reform (that consolidates and/or advances earlier activities). |
| Target | Year 4 | 2023 | At least one additional GSI-supported influential statement, policy study or international dataset is produced as a result of international processes or fora in support of fossil-fuel subsidy reform or the need for sustainable reform (that consolidates and/or advances earlier activities). |
| Output 1.2 | | Policy-makers in target countries being (better) able to prepare and plan reform policies. | |
| Output indicator | | Policy-makers in target countries are making use of GSI assistance (in an escalation from awareness to implementation). | |
| Baseline | Year | 2019 | Reforms are talked about but formal planning and preparation for the reforms are not taking place. |
| Target | Year 1 | 2020 | Policy-makers in at least 3 target countries are using GSI material to increase awareness of key gaps in preparedness for reform. |
| Target | Year 2 | 2021 | Policy-makers in at least 3 target countries are aware of material produced by GSI, which is of relevance to gaps in their own preparedness. |
| Target | Year 3 | 2022 | Policy-makers in at least 3 target countries are aware of the existence of country-specific knowledge and policy options produced by GSI or local partners, which can be used to address gaps in preparedness for reform. |
| Target | Year 4 | 2023 | Policy-makers at least 3 target countries identify necessary means to enact identified options (e.g. resources, legislative changes, implementation responsibilities) and implement necessary policies to enable their use. |
| Output 1.3 | | Non-government actors at international and at national levels, including CSOs and the private sector, take part in efforts to enable sustainable subsidy reforms. | |
| Output indicator | | The number of statements, agreements, events, formal coalitions or other joint public-facing activity from more than one institution in target countries (where there is evidence of an escalation of these types of activities that consolidate and build on each other in each target country). | |
| Baseline | Year | 2019 | Non-government actors are engaged but not at a level needed to exert a strong influence not sufficiently coordinated. |
| Target | Year 1 | 2020 | At least one additional statement/ agreement/ event/ formal coalition/or other joint public-facing activity from more than one institution in 3 target countries. |
| Target | Year 2 | 2021 | At least one additional statement/ agreement/ event/ formal coalition/or other joint public-facing activity from more than one institution in 3 target countries (that consolidates and/or advances earlier activities). |

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| Target | Year 3 | 2022 | At least one additional statement/ agreement/ event/ formal coalition/or other joint public-facing activity from more than one institution in 3 target countries (that consolidates and/or advances earlier activities). |
| Target | Year 4 | 2023 | At least one additional statement/ agreement/ event/ formal coalition/ or other joint public-facing activity from more than one institution in 3 target countries (that consolidates and/or advances earlier activities). |

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| Outcome 2 | | National and international support mobilized for efficient pricing and taxation of fossil fuels. | |
| Outcome indicator | | Contribution made to efficient pricing and fossil fuel taxation in at least two emerging economies. | |
| Baseline | Year | 2019 | The taxation of energy varies widely between countries but, on average, taxation rates have been at a stable level over the past 20 years. This is at odds with both the increasing understanding of the external costs caused by energy and taxation theory: many energy goods are inelastic and therefore are ideal candidates to help raise scarce public finance. |
| Target | Year | 2023 | Significantly increased international engagement on the potential of efficient fossil fuel pricing and use of taxation as a tool to support sustainable energy. Increased fossil fuel taxation promoted in 3 emerging economies, including possible Swaps. |
| Output 2.1 | | Efficient pricing and energy/carbon tax reform promoted nationally and internationally, based on successful experience in the Nordic region and elsewhere. | |
| Output indicator | | Information campaign carried out based on review and evidence of successful cases leads to changed perceptions among decision makers | |
| Baseline | Year | 2019 | Efficient pricing and energy/ carbon tax reforms experience (good and bad) is not well known among decision makers at national and international level. |
| Target | Year 1 | 2020 | Review of experience and success cases undertaken, and information campaign carried out. |
| Target | Year 2 | 2021 | Information campaign effect in changing perceptions reviewed end of year 1 and information campaign/promotion activities adjusted and carried out. |
| Target | Year 3 | 2022 | Information campaign effect in changing perceptions reviewed end of year 2 and information campaign/promotion activities adjusted and carried out. |
| Target | Year 4 | 2023 | Information campaign effect in changing perceptions reviewed end of year 3 and information campaign/promotion activities adjusted and carried out. |
| Output 2.2 | | Efficient pricing and energy/carbon tax reform undertaken in at least 1 jurisdiction. | |
| Output indicator | | Fossil fuel taxation increased in at least 1 jurisdiction arising from a contribution by the project and leading to more efficient pricing. | |

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| Baseline | Year | 2019 | Fossil fuel taxation is low or inefficient in the selected jurisdiction. |
| Target | Year 1 | 2020 | Opportunities for fossil fuel taxation increase reviewed and a few candidate jurisdictions selected. |
| Target | Year 2 | 2021 | Planned promotion activities for fossil fuel taxation increase completed in a selected jurisdiction. |
| Target | Year 3 | 2022 | Planned promotion activities for fossil fuel taxation increase completed in the selected jurisdiction. |
| Target | Year 4 | 2023 | Fossil fuel taxation increased in the selected jurisdiction. |

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| Outcome 3 | | Fossil fuel subsidy Swaps and private sector investment promoted, with a focus on transition to clean energy in emerging economies. | |
| Outcome indicator | | Significantly increased understanding and uptake of mechanisms for Swaps and for using public money from Swaps to incentivise private sector investment in clean energy in participating emerging economies (and better understanding by Danish and Nordic investors and developers of these opportunities), including from a gender equity and poverty reduction perspective. | |
| Baseline | Year | 2019 | FFSR, energy taxation debates, Swaps and PSICE are all ongoing but awareness still too low for concerted action and for being effectively linked together, which has the potential to significantly increase the pace and scale of impact. |
| Target | Year | 2023 | Advocacy has increased awareness of Swaps and the potential for private sector investment for on-grid RE in up to 3 emerging economies. There is evidence of uptake on case study/business models for off-grid solutions in up to 3 countries, and Swaps are being developed outside the main grid. |
| Output 3.1 | | A practical taxonomy of Swaps and guidance on how they can be designed, disseminated and implemented. | |
| Output indicator | | The taxonomy and guidance of Swaps is developed, used and improved. | |
| Baseline | Year | 2019 | There are many different concepts and types of Swaps but not organised and categorised in a way which makes it easy to exchange experience and provide opportunities for learning. |
| Target | Year 1 | 2020 | Analytical work is developed to form the basis/foundation for a taxonomy. |
| Target | Year 2 | 2021 | Outline taxonomy is developed and stakeholders consulted. |
| Target | Year 3 | 2022 | Taxonomy is developed and disseminated. |
| Target | Year 4 | 2023 | Updated and expanded taxonomy is developed and disseminated. |
| Output 3.2 | | Swaps are promoted and advocated focusing on 3 emerging economies. | |
| Output indicator | | Opportunities are identified for on-grid, outside on-grid and other Swaps. | |
| Baseline | Year | 2019 | Considerable opportunities for Swaps exist but they are only vaguely acknowledged and identified. |
| Target | Year 1 | 2020 | Opportunities for on-grid and outside on-grid Swaps identified in 1 country. |
| Target | Year 2 | 2021 | Opportunities for on-grid and outside on-grid Swaps identified in 2 countries. |
| Target | Year 3 | 2022 | Opportunities for on-grid and outside on-grid Swaps identified in 3 countries. |
| Target | Year 4 | 2023 | Opportunities for on-grid and outside on-grid Swaps are being self-identified beyond the 3 focus economies. |

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| Output 3.3 | | Environment for PSICE improved, notably for employing domestic finance in emerging economies (but also assessing opportunities for international organisations). | |
| Output indicator | | Investment being increased as a result of PSICE related road-blocks are identified and unblocking solutions promoted. | |
| Baseline | Year | 2019 | PSICE is constrained due a range of road-blocks that could eased through public sector engagement and funding. |
| Target | Year 1 | 2020 | Road-blocks identified, analysed and brought up for discussion in 1 emerging economy. |
| Target | Year 2 | 2021 | Road-blocks identified, analysed and brought up for discussion in 2 emerging economies leading to investment being increased in at least 1 country. |
| Target | Year 3 | 2022 | Road-blocks identified, analysed and brought up for discussion in 2 emerging economies leading to investment being increased in at least 2 countries. |
| Target | Year 4 | 2023 | Road-blocks identified, analysed and brought up for discussion in 3 emerging economies leading to investment being increased in at least 3 countries. |
| Output 3.4 | | Increased PSICE in 3 emerging economies from public money from Swaps or other project outputs. | |
| Output indicator | | Mechanisms for use of public and development finance from Swaps identified and promoted. | |
| Baseline | Year | 2019 | There is an absence of mechanisms and experience of how public and development finance from Swaps can lead to increased PSICE. |
| Target | Year 1 | 2020 | Mechanisms for use of public and development finance from Swaps identified in 1 emerging economy. |
| Target | Year 2 | 2021 | Mechanisms for use of public and development finance from Swaps identified in 2 emerging economies leading to solutions being implemented and investment being increased in at least 1 country. |
| Target | Year 3 | 2022 | Mechanisms for use of public and development finance from Swaps identified in 2 emerging economies leading to solutions being implemented and investment being increased in at least 2 countries. |
| Target | Year 4 | 2023 | Mechanisms for use of public and development finance from Swaps identified in 3 emerging economies leading to solutions being implemented and investment being increased in at least 3 countries. |

Criteria for country selection:

- likely mitigation impact and contribution to reaching project objectives.
- demonstrated political commitment to RE and EE and reform readiness.
- actual or planned engagement with IISD-GSI/specific requests to IISD-GSI for support.
- transaction costs.
- IISD-GSI potential for value-added in a landscape with many development partners.
- 100 % DACability.

Note: In terms of country choice and focus, IISD-GSI has been active in India and in Indonesia on a continuous basis for over 5 years, and currently has 3 local staff members in each country. Continuous

presence has been identified as a key success factor for influence by IISD-GSI, in order to build trust with government and other stakeholders such that work produced has an audience. All parts of the work programme proposed have a strong focus on emerging economies. India and Indonesia are therefore chosen as key countries for activities and the project will seek to coordinate closely with the Danish Energy Agency and other Danish-supported activities through the MDBs, IEA, CEM, etc. In selecting a third emerging economy as target country, a preference for a South East Asian country is indicated. Again, synergies with Danish-supported work in Danish priority countries will be sought.

## Annex 4: Budget Details

A project cost template is made for each project based on the IISD standard financial and administration. The template outlines the staff costs, expenses and overhead contributions at a high level of detail. The Project cost template is approved by the financial department before a unique project code is assigned and expenditure can be booked against standard expense type codes. All expenditure is recorded and tracked against the project cost template and can be interrogated at any point. The reporting will be at outcome level. The annual workplan and budget process would allow changes of up to 10% without prior approval.

| Proposed budget by Output and by Year | | Budget (DKK million) | | | | |
|---|---|---|---|---|---|---|
| | | 2020 | 2021 | 2022 | 2023 | TOTAL |
| **Outcome 1** | **National and international support to the reform of Fossil Fuel and Electricity Subsidies, including through the "Friends of Fossil Fuel Subsidy Reform Group"** | **1.692** | **1.450** | **1.450** | **1.208** | **5.800** |
| Output 1.1 | International processes and organizations support the inclusion of subsidy issues in international processes and forums. | 0.887 | 0.760 | 0.760 | 0.633 | 3.040 |
| Output 1.2 | Policy-makers in target countries being (better) able to prepare and plan reform policies. | 0.621 | 0.533 | 0.533 | 0.444 | 2.130 |
| Output 1.3 | Non-government actors at international and at national levels, including CSOs and the private sector, take part in efforts to enable sustainable subsidy reforms. | 0.184 | 0.158 | 0.158 | 0.131 | 0.630 |
| **Outcome 2** | **National and international support mobilized for efficient pricing and taxation of fossil fuels.** | **1.463** | **1.392** | **1.225** | **1.021** | **5.100** |
| Output 2.1 | Efficient pricing and energy/carbon tax reform promoted nationally and internationally, based on successful experience in the Nordic region and elsewhere. | 0.554 | 0.417 | 0.125 | 0.104 | 1.200 |
| Output 2.2 | Efficient pricing and energy/carbon tax reform undertaken in at least 1 jurisdiction. | 0.908 | 0.975 | 1.100 | 0.917 | 3.900 |

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| **Outcome 3** | **Fossil fuel subsidy Swaps and private sector investment promoted, with a focus on transition to clean energy in emerging economies.** | **2.650** | **2.250** | **1.492** | **1.208** | **7.600** |
| Output 3.1 | A practical taxonomy of Swaps and guidance on how they can be designed, disseminated and implemented. | 1.258 | 1.158 | 0.700 | 0.583 | 3.700 |
| Output 3.2 | Swaps are promoted and advocated focusing on 3 emerging economies. | 0.667 | 0.367 | 0.200 | 0.167 | 1.400 |
| Output 3.3 | Environment for PSICE improved, notably for employing domestic finance in emerging economies (but also assessing opportunities for international organisations). | 0.467 | 0.367 | 0.200 | 0.167 | 1.200 |
| Output 3.4 | Increased PSICE in 3 emerging economies from public money from Swaps or other project outputs. | 0.258 | 0.358 | 0.392 | 0.292 | 1.300 |
| IISD Administration (7%) | | 0.406 | 0.356 | 0.292 | 0.241 | 1.295 |
| MFA Review | | | 0.205 | | | |
| **Total** | | **6.210** | **5.653** | **4.458** | **3.678** | **20.000** |

# Annex 5: Risk Management Matrix

| **Contextual risks**[19]: | | | | | |
|---|---|---|---|---|---|
| **Risk Factor** | **Likeli-hood** | **Impact** | **Risk response** | **Residual risk** | **Background to assessment** |
| Vested interests and civil society resistance hamper subsidy reform efforts. | Possible | High | Through awareness-raising and capacity development, support the momentum toward the green energy transition demonstrating the socio-economic benefits of subsidy reform, the avoidance of fossil-based stranded assets, etc. The power of the example from other countries with comparable contexts may be a powerful tool, and the demonstration of the costs and inefficiencies of current non-reformed policies. | Low-medium | There is growing recognition of the negative consequences of fossil fuels subsidies, but this is controversial and changes in subsidy schemes have led to social unrest in many countries and there are strong vested interests. |
| Political commitments to a green energy transition could be undermined due to changes of government, political instability or unrest and/or political priorities. | Possible | High | The target countries are largely emerging economies. Electoral cycles and changes in government priorities mean that the attractiveness of FFSR or tax reform and commitment to clean energy varies: the key is to support governments to be prepared when the window of opportunity is open (for example when a new Head of State is elected with a popular mandate). Responses include: ongoing engagement in-country; alignment to robust international frameworks including the relevant SDGs and the Paris Agreement on Climate Change; awareness-raising and capacity development, and demonstration of benefits of the energy transition; emphasis on peer-to-peer exchanges with other countries with comparable framework conditions. | Low | There is always the possibility of a change of government and related shift in policy priorities. But target countries are committed at senior levels to cooperation with IISD and there is a strong emphasis on engaging practitioners who would not change with a change of government. IISD/ MEUC/ MFA are not risk-averse and opportunities for impact also comes with taking informed risk. |
| NDCs and national sectoral policies and strategies with which the project will align, prove | Possible | Medium | The project emphasises alignment to national policies and strategies in the efforts to influence these as part of the green energy transition. Many NDCs are insufficiently clear or ambitious. All Parties to the Paris Agreement | Low | This project can help partner countries implement/raise their level of ambitions in their green energy transition, as reflected in policies and strategies such as |

[19] This category covers the range of potential adverse outcomes that may arise in a particular context, including the risk of harm beyond the immediate context or the country's borders and may include governance failure (e.g. the failure of effective public financial management or law enforcement); competition for resources; natural hazards; and pre-existing socio-political tensions. (Danida Guideline to Risk Matrix 2018).

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| to be weak or are not enacted. | | | agreed to either communicate their current NDCs or submit new or updated NDCs by 2020, and to do so every five years thereafter. This gives opportunities for the project to work with partners and provide inputs to raising the level of ambition in NDCs by 2020. | | the NDCs. There is also a need to more closely link NDCs with SDGs as a way to leverage and accelerate country action. |
| **Programmatic risks**[20]: | | | | | |
| **Risk Factor** | **Likelihood** | **Impact** | **Risk response** | **Residual risk** | **Background to assessment** |
| Governments not willing to consider moving extra public finance into clean energy, or there is a lack of political will to follow-through on commitments to action and use the benefits of fiscal reform for clean energy. | Likely | High | The careful selection of partners, is key, building on expressed commitment and demand by participating countries. Capacity development, the use of best-practices and lessons learned from other countries and peer pressure through exposure in international workshops/fora for showcasing of results and impact stories will reinforce this, increasing political will for reform. | Low | FFS are often connected to governments social welfare systems albeit an inefficient type of redistribution. Therefore, governments could come under pressure to reverse reforms if current beneficiaries of the reform suffer adverse effects. It is important that initiated reforms benefit particularly the most vulnerable while incentivising increased clean energy deployment. |
| Limited capacity of local partners could impede implementation progress and results. | Possible | Medium | Selection of committed and engaged partners who know IISD and see value of engagement. Existing partners with a record of delivery are favoured. Capacity development/technical assistance through the project. | Low-medium | Developing the capacity of political decision-makers and practitioners in subsidy and taxation reform is an important part of this project. |
| The Friends of FFSR could lose momentum as a diplomatic initiative. | Unlikely | Low | Ensure highly structure meetings with a clear agenda, a timely record of the meeting with a clear follow-up process action plan, and emphasis on the good examples of results and impact. | Low | The FFFSR is a diplomatic initiative but it is also highly dependent upon busy agency staff dedicating time and commitment in the face of many other pressures. |
| Project duplicates existing activities and sources of finance | Likely | Low | IISD-GSI operates in a crowded field with competing pressures on decision makers' attention and donor coordination is often inadequate in the target countries. | Low | The project will operate in a crowded and extremely dynamic field with many development partners, and the incentives |

[20] This category covers include two kinds of risk: (1) the potential for a project to fail to achieve its objectives; and (2) the potential for the project to cause harm in the external environment. With regard to (1), the risk factors for project failure include many of the contextual risks outlined above, as well as institutional and political factors. But there are many other reasons for potential project failure, including inadequate understanding of the context or flawed assessment of what needs to be done; management and operational failures; and failures of planning and co-ordination. Risk is also associated with new or innovative project approaches (although there may also be risk in failing to innovate). (Danida Guideline to Risk Matrix 2018). The categorisation of likelihood, impacts, and residual risk is also consistent with Danida guidelines.

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| and/or fails to recognise interfaces and synergies with other initiatives in a crowded arena. | | | | | for coordination and synergy may not always be effective. There is no comprehensive overview of initiatives in the wide field of energy transition in the partner countries, IISD's wide range of collaborative arrangements with other development partners and presence in international and national for a provide good opportunities for synergy and avoidance of overlap. |
| **Institutional risks**[21]: | | | | | |
| **Risk Factor** | **Likelihood** | **Impact** | **Risk response** | **Residual risk** | **Background to assessment** |
| Coordination with other IISD donors is inadequate and earmarking could skew project focus and results | Unlikely | Medium | IISD will ensure coordination of donor inputs to its business plan and projects. | Low | There are other donors than Denmark contributing in some of the same areas of focus. |
| The project fails to deliver its outcomes, which will reflect negatively on IISD, MEUC, and the MFA. | Unlikely | High | The theory of change and results framework with SMART indicators will be designed with realistic and measurable targets. A communication strategy (Annex 7) will ensure that results and achievements are communicated effectively to key audiences, and impact drivers will be used proactively. | Low | This project is strategic and high-profile and the agencies' reputation is important in setting realistic targets. |
| IISD-GSI staff and resources could be inadequate or not available when needed. | Unlikely | High | The project will be closely aligned with the IISD-GSIhh business plan and work programme. IISD-GSI's staff turnover is relatively low but building and strengthening the team's capacity and resilience is an ongoing management priority. | Low | The planning of this project reflects IIISD-GSI's view that this is very much a team effort rather than specific individuals for specific tasks. However, IISD-GSI is a small organisation and GSI's work is highly specialized and innovative. While work on taxation is new, IISD-GSI sees this work as very much a continuation of the work on |

[21] This category includes "internal" risk from the perspective of the donor or its implementing partners. It includes the range of ways in which an organisation and its staff or stakeholders may be adversely affected by interventions, e.g. damage to a donor's reputation if it fails to achieve its objectives, or from financial/fiduciary failure (Danida Guideline to Risk Matrix, 2018).

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| | | | | | subsidy reform. Also, GSI will need to increase capacity to work on PSICE. |
| Failure to elicit and disseminate project results and impact stories. | Unlikely | High | IISD and GSI have effective platforms for communication and the project design emphasises the timely and effective communication and sharing of results, tools, knowledge products, and impact stories. | Medium | Communication is key. |

# Annex 6: List of Supplementary Material

| Documents and sources of information | Source/internet link[22] |
|---|---|
| Powerpoint presentations handouts and background materials provided during working sessions in Geneva on 4-5 February (see detailed list in the footnote[23] below) | IISD-GSI |
| Draft text inputs and budget calculations, January – June 2019 | IISD-GSI |
| Draft project document, support for sustainable energy systems via Fossil Fuel and Electricity Subsidy Reform and Swaps, increased Private Sector Investment in Clean Energy (PSICE), increased Fossil Fuel Taxation and Knowledge-sharing (2019-21) - draft 31 August 2018. | IISD with MEUC |
| IISD GSI Narrative report 2017. | IISD-GSI |
| IISD Global Subsidies Initiative Business Plan, 2018–2020: Sustainable Reforms to Support the Energy Transition. | IISD-GSI |
| IISD-GSI programme document template and theory of change 31 August 2018. | IISD-GSI |
| Programme document, Support for sustainable energy systems via Fossil Fuel Subsidy Reform swaps & knowledge sharing, funded by the Danish Climate Envelope 2016 (Engagement 2: IISD-GSI Developing and Promoting Fossil Fuel and Renewable Energy Swaps). | MEUC/MKL |
| Material from ESMAP Knowledge Exchange Forum on Energy Subsidy Reform, held in Geneva during | WB/ESMAP and IISD-GSI |

[22] IISD-GSI aims to make all its work publicly available and for its access to be user-friendly via its website (www.iisd.org/gsi)

[23] IISD and Energy organisation, ppt slides, IISD Energy Organigram 1 Feb 2019, IISD Energy Brochure, IISD Strategic Goals 2015, IISD the knowledge to act brochure, FFFsR Work Plan, Friends Slides Support, Friends workplan and budget 2018, IISD-GSI Donor Funding 30 Jan 2019, Danish GSI Support 2010-present, The Global Subsidies Initiative Phase 2 – Progress Report to DANIDA 17 November 2011 – 16 November 2012, Support to the Global Subsidies Initiative Phase 3 (multi-donor project) Progress Report: 1st April 2012 – 31st of March 2015, Summary of Responses to Danida Review 2014-15, Ppt on IISD-GSI Key Substantive Results and Lessons Learned, GSI 2015-2018 Outcomes report, Work Planning Overview, QA Guidelines Oct 2018 DRAFT, IISD Energy India program 2-pager 17 April 2018. IISD Energy Indonesia program 2-pager 14 May 2018, Mexico Electricity Pricing Reform Summary, Indonesia roadblocks renewable energy, Interim Report: Nordic Support and Action on Fossil Fuel Subsidy Reform, Dec 2016, Kerosene to Solar PV Subsidy Swap: The business case for redirecting subsidy expenditure from kerosene to off-grid solar (in India) GSI/TERI, July 2018, Energy Subsidy Reform - Reference Group - Meeting Notes 01 17 2019, Energy Efficiency Overview Slides IISD-GSI, Swapping Fossil Fuel Subsidies for Sustainable Energy, IISD-GSI ppt slides 2018, Credit Enhancement Overview, IISD-GSI ppt slides, Fossil Fuel Taxation IISD-GSI ppt slides, Friends of the Fossil Fuel Subsidy Reform, IISD-GSI ppt slides. Gender Youth and Rights in the GSI business plan, IISD-GSI ppt slides.

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| 30-31 October 2018 including numerous presentations (also from IISD-GSI). | |
| Kerosene to Solar PV Subsidy Swap: The business case for redirecting subsidy expenditure from kerosene to off-grid solar in India, July 2018 | IISD-GSI with TERI, India |
| India's Energy Transition: Mapping subsidies to fossil fuels and clean energy in India (2017) | IISD-GSI with ODI and ICF India |
| Unpacking Government Support to Fossil Fuels and Renewable Energy in India | IISD-GSI |
| Press Release on India's fossil-fuel subsidies 19 December 2018: https://www.iisd.org/gsi/news-events/india-energy-subsidies-right-direction | IISD-GSI |
| Gender and Fossil Fuel Subsidy Reform: An audit of data on energy subsidies, energy use and gender in Indonesia | IISD-GSI with UK Aid and ENERGIA |
| Missing the 23 Per Cent Target: Roadblocks to the development of renewable energy in Indonesia | IISD-GSI with Embassy of Denmark in Jakarta and the Swedish Energy Agency |
| Review Aide Memoire, Review of IISD | MFA/Danida, February 2015 |

# Annex 7: Plan for Communication of Results

Note: IISD-GSI will update their plan for communication of results in the final project document.

| **What?**<br>(the message) | **When?**<br>(the timing) | **How?**<br>(the mechanism) | **Audience(s)** | **Responsible** |
|---|---|---|---|---|
| Support from Denmark to IISD-GSI approved.<br><br>Subsidy reform is a driver for renewable energy deployment and energy efficiency.<br><br>Swaps are an innovative financing mechanism and can leverage private investments using public funds, with significant co-benefits.<br><br>Successful approaches and tools for increased Private Sector Investment in Clean Energy<br><br>Impact stories based on country examples. | When donor agreement signed.<br><br>As soon as the project has generated new information. | IISD and GSI websites and newsletters,<br><br>Webinars, meetings and dialogues, publication of research reports, infographic, video and social media, access to public good such as online databases (and potentially apps).<br><br>GSI has a full-time Communications officer, works on specific Communications Strategies (largely for the World Bank's ESMAP programme in countries) and looks to maximise the impact of all its products and outputs. | Professional community<br><br>Political decision makers and practitioners.<br><br>General public. | IISD-GSI |
| Denmark provides new contribution to IISD-GSI for subsidy reform<br><br>The support contributes to the Paris Agreement on Climate Change, SDG7, SDG 12, SDG 13, and SDG 17 and the UNSG 2019 Climate Summit. | From the approval of the project and throughout the project duration and beyond. | MEUC website and State of Green. | Danish resource base and Danish tax payers. International development partners. | MEUC |
| Impact stories for both country examples and public awareness. | During implementation as soon as available. | MFA public diplomacy Denmark Daily newsletters, World's Best News campaign. | The Danish resource base and tax payers. | MFA/MKL and Embassies of Denmark in India, Indonesia and other partner countries. |
| Impact stories, replicable examples of good practice. | During implementation as soon as available. | Websites, newsletters, seminars. | Decision makers and the professional community in public and private sectors and academia. | Partner/beneficiary institutions in IISD-GSI partner countries. |

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| Impact stories, replicable examples of good practice. | During implementation as soon as available. | Website and outreach activities of The Friends of Fossil Fuel Subsidy Reform (an informal group of non-G20 countries working to build political consensus on the importance of fossil fuel subsidy reform) | Decision makers in partner governments and key staff of multilateral and bilateral development partner organisations. | IISD-GSI. |
| Impact stories, replicable examples of good practice. | During implementation as soon as available. | Email networking and outreach activities of FFS Civil Society Organisation Network (an international peer to peer email list for sharing information on fossil fuel subsidies and their reform). | Civil Society Organisations | IISD-GSI and network members. |

# Annex 8: Process Action Plan

| Action/product | Dates/Deadlines | Responsible/ involved unit | Comment/status |
|---|---|---|---|
| **Formulation:** | | | |
| Formulation of project document for Danish support to IISD-GSI. | 15 January-1 February 2019 | Consultant in liaison with IISD-GSI. | |
| Mission to IISD-GSI Geneva. | 4-5 February | IISD-GSI/ MKL /MEUC/ Consultant | The draft project document was a basis for working sessions. |
| Final draft project document for Danish support to IISD-GSI as the basis for appraisal. | February | Consultant in liaison with IISD-GSI. | |
| **Appraisal:** | | | |
| Appraisal. | June | MFA/MKL | |
| Summary of the Recommendations of the Appraisal. | June | MFA/MKL | |
| **Approval:** | | | |
| Revision of Project Document based on Appraisal Note. | June | Consultant in liaison with IISD-GSI. | |
| Final Project Document. | June | Consultant with MEUC, MKL. | |
| Approval of the Project by the MFA Undersecretary for Development Cooperation. | November | MKL | |
| Approval by the Danish Minister for Development Cooperation. | Immediately after the Under-secretary's approval | Under-secretary with MKL | |
| Signing of legally binding agreement (commitments) with IISD. | November | MKL | |
| Register commitment in MFA's financial systems within budgeted quarter. | November | MKL | |
| **Project start:** | | | |
| First disbursement and start of project. | 2019 | IISD with MKL | Disbursement on request from IISD. |

## Annex 9: Summary of Recommendations of the Appraisal

| | |
|---|---|
| **Title of Project** | **IISD-GSI support for Fossil Fuel Subsidy Reform and Clean Energy Transition** |
| **File number/F2 reference** | **2019-15457** |
| **Appraisal report date** | **Date of this summary table is 16 June 2019** |
| **Council for Development Policy meeting date** | **N/A** |
| **Summary of possible recommendations not followed**<br><br>**(to be filled in by the responsible unit)** | |

**Overall conclusion of the appraisal**

The Appraisal Team (AT) finds the proposed project to be highly relevant and well aligned with the Danish development policies, including 'The World 2030' and the 'Guiding Principles for the Danish Climate Envelope'. The proposed project is a continuation of a highly mature and well-tested work programme, supported by Denmark and several other donors since 2005. Experiences and lessons learned from previous support and how these have informed the design of the proposed project could be further elaborated in the Project Document.

The theory of change and results framework is well described and justification for support is very evident. All three outcomes are assessed as highly relevant for the two partnering countries (India and Indonesia) so far selected for support. The criteria for selecting a third target country is included annex 3 and it will be important to leave sufficient time for MEUC and MFA to make a decision on this in close collaboration with and based upon input from IISD. The preference for selecting a South East Asian country could be justified further in the text. Based on the ATs conversation with IISD the current candidates are South Africa and Mexico.

The proposed measure to assess the project objective of *reduced greenhouse gas emissions accelerated, transition to clean energy, and other benefits including increased energy security, via fossil fuel subsidy reform, taxation and increased investment in clean energy from governments and private sector* could be further elaborated. It is mentioned that progress made towards meeting this objective will be based on the best available evidence assessment tools but the specific details and content of these tools are not completely clear. IISD-GSI have already sought to understand what emissions reductions FFSR could lead to through their own research. They have developed a model, the GSI-Integrated Fiscal (GSI-IF) Model, to estimate reductions from the removal of consumer FFS and modest taxation of fossil energy, combined with 30% swaps of savings into clean energy investment. These results were used to inform countries in the lead up to Paris in 2015 and will be so again in 2019, in order to try to influence second generation Nationally Determined Contributions to the Paris Agreement.

The proposed project has strong potentials for contributing positively to gender equity and poverty reduction. In terms of impacts on gender equity this can be both as result of swaps from kerosene to off-grid solar energy including cook stoves as well as from fossil fuel subsidy reforms and broader policy changes from within the energy sector. As such, there is a clear opportunity to mainstream gender equity and poverty reduction into the proposed project but the project document does not sufficiently explain this linkage especially regarding gender equity.

The project document provides a number of examples on IISD-GSI recent results and achievements. This could be further elaborated in order to better explain to what extent the energy subsidy reform over the past decade can be attributed to the work of IISD GSI. Overall, the AT finds the institutional arrangement, management setup and progress reporting to be adequate and efficient. However, it could be clarified, that the annual report and progress report both mentioned in the document are one and the same report.

A new IISD-GSI Business plan will be developed during 2020 and cover the period of 2021-2023. It is designed to present a coherent range of activities aimed at supporting and speeding up the global move

to sustainable energy. The new Business Plan will include all activities related to Fossil Fuel Subsidy Reform (Outcome 1), including support to the Friends of Fossil Fuel Subsidy Reform ("the Friends") as well as all activities covered within Outcomes 2 and 3 (Swaps, PSICE and Taxation). Denmark should actively engage in the development of this new Business Plan.

Danida carried out a mid-term review in 2014-15 and the recommendations from this review have now overall been sufficiently addressed. The review attempted to assess the political uptake of the IISD outputs, whether it is specific advice, analytical work, guide books etc. In this regard the review found that virtually no documentation is provided by the IISD of results and impact in the form of political uptake. There has been no major external review since then but as part of this proposed contribution, a mid-term review is scheduled for 2021. The AT suggests that the mid-term review specifically seeks to assess the IISD results and impacts in the form of political uptake.

The proposed Danish support of 20 million DKK will be the single largest contribution to IISD-GSI since its formation in 2005 and will significantly increase the Danish annual contribution to IISD-GSI until 2022-23. In order to ensure a more structured and joint dialogue with IISD and other key donors the AT supports the proposal of having annual consultative one-day meetings. This is also in line with the mid-term review from 2015 where one recommendation to Danida was, that it should assist as relevant in establishing the joint donor dialogue, and abandon its bilateral consultations. The overall aim of these consultations should be to reflect over progress made in the previous year, collaboration with other relevant stakeholders incl. international institutions, sharing of knowledge and lessons learned and discussions around the annual work plan for the year ahead.

The project is mainly aimed at providing climate change mitigation impacts, but it can potential also contribute to increased RE deployment and EE improvements, which can facilitate improved energy security and support climate adaptation and improved resilience. The project document mentions the potential positive impact from the proposed project and specifically that the savings from reduced fossil fuel subsidies can support socio-economic improvements in other sectors of the economy and thereby also contributing to a sustainable and more resilient development. IISD has a strong Resilience Programme and joint work has taken place for example making the link between savings from fossil fuel subsidies for creation of domestic resources for adaptation funding. The AT suggests that where relevant the link between climate change adaptation and fossil fuel subsidy reforms should be incorporated into the advice given to governments when advocating for Clean Energy Subsidy Swaps and increased expenditure on welfare. Moreover, further work on developing specific indicators of the positive impacts on adaptation from FFSR could be considered at a later stage.

The conclusion of the appraisal is that proposed contribution to IISD-GSI is recommended for approval after taking into consideration the recommendations of the appraisal listed below.

| Recommendations by the appraisal team | Follow up by the responsible unit |
|---|---|
| 1. Provide some more information on the experiences and lessons learned from previous support and how these have informed the design of the proposed project. In relation to this, the previous grants section on the cover page should reflect previous contributions to IISD-GSI. | IISD has provided a short summary overview of experience and lessons learnt which has been included in Section 2 as "Table 2.1: Experiences and lessons learned from previous Danish support and how this has informed design of the proposed work programme and project".<br><br>The cover page now also reflects the previous Danish contributions to IISD-GSI (i.e. September 2006, DKK 4 mill.; October 2008, DKK 8.7 mill.; November 2010, DKK 8.8 mill.; December 2012, DKK 14.8 mill) |
| 2. In the summary results framework and annex 3 provide more information on the best available evidence assessment tools to be applied when assessing the progress made towards the project objective. | It has been added as a footnote in Table 51, Table 7.1, and Annex 3 that:<br><br>"Best available evidence tools will include: a. Screening and review of evidence of governments committing to: i) FFSR; ii) energy taxation; b. Analysis of the extent to which IISD interventions are linked to or have contributed towards positive government action/commitment. The sources of evidence will include: NDC monitoring, updates and supportive studies; SDG 7 reporting; interviews held during in-country visits; and reporting from the press and other sources. |

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| 3. Include a brief explanation in the main text or annex 1 (context analysis) on how the project will effect gender aspects and how there might be opportunities to better target fossil fuel subsidies towards women. In addition to this, it is recommended to revise the indicators for outcome 1, 2, and 3 by adding the following text: *"…,including from a gender equity and poverty reduction perspective."* | The outcome indicators have been amended as recommended in the main text, Tables 5.1 and 7.1, and in Annex 3.<br><br>In Annex 1 Context Analysis, Section 3 the following has been added before the first sentence: "*IISD does not currently monitor the cross-cutting issues of human rights and gender equality as general practice but has found it more effective to look at these issues as a focus for specific projects. Thus, IISD has recently completed a 4-year research project on gender and FFSR. The 2016 study reveals that the impacts of energy subsidies, the impacts of energy sector reform, and workable or appropriate mitigation measures associated with any FFS reforms are extremely context specific depending on the country, fuel type, income and education of women. Nonetheless, strong evidence indicates that in many countries a significant proportion of subsidy benefits are captured by well-off households, suggesting a general phenomenon of energy subsidy inefficiency if the desired policy objective is to target income and energy access benefits to women and men living in poverty. The report shows how especially poor women do not benefit from the current subsidies to energy. If subsidies and change in the subsidy regime are to help women, they need to be very carefully targeted. This would include consideration of measures such as cash transfers (often directly to women) or energy voucher or equipment sets for non-fossil energy or as targeted energy access subsidies via bank accounts (delinked from distorting market prices). The GSI Business Plan 2018-20 includes work on a Fair and Just Transition (within the energy sector). This workstream focuses on issues including job losses, poverty, gender empowerment and social safety nets*".<br>The following has been added after the current 3rd sentence: *", particularly in the case of understanding gender equity impacts and opportunities that could arise across the project. For example, the project can highlight to governments the need to mitigate any negative impacts from rising fossil fuel prices from a gender perspective (for example cooking fuels). The project will also take those opportunities available to highlight to governments and the private sector the chance to better target domestic or private resources for multiple outcomes – such as the energy transition and poverty reduction and gender equity. For example, opportunities exist to better target fossil fuel subsidies towards those that need them most via energy access or social security subsidies directed towards vulnerable groups as seen in earlier swaps work in India with both a switch in government subsidies from kerosene to solar cooking subsidies, and better targeting of LPG subsidies towards poor women via female bank accounts and cash transfers".* |

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| 4. Include a brief explanation on the specific delivery model of the proposed project especially in terms of capacity building activities and knowledge sharing. | In the PD Section 7 the following has been added after Table 7.1: *"IISD-GSI's overall approach to project delivery is to understand where there are gaps and barriers to reform and to seek to overcome these. This can include a range of activities, from direct meetings with policymakers through events, communications strategy development, collaborating with or supporting other organisations to produce materials highlighting problems and solutions as part of campaigns, surveys and focus group discussions and targeted research and publications. A key element in capacity building is that IISD-GSI always works with local agents or partners in-country; they are already linked into policymakers and influence circles and are available on a continuous basis. All IISD-GSI research is open source and this is shared widely, for example through a quarterly newsletter to interested contacts and through a regularly-updated website and social media feeds. IISD-GSI utilizes many international venues to share work and capitalize when many policy makers are available together in one place (e.g. side events linked to the Clean Energy Ministerial, or to UNFCCC Bonn meetings, or linked to the SDGs, MDB Events or other venues). A further mechanism to build capacity was set up at the end of 2018 - the Friends' Network (http://fffsr.org/webinars/). This seeks to share best practice beyond the Friends group via Chatham House webinars. The approach is peer-to-peer learning – so countries are presenting how they tackled the issue of reform from a real-world perspective with peers. As an example, Denmark proposed (as part of the Friends Group during a face-to-face Friends' meeting) the need for a Guidebook on Peer Review of FFS. Also, IISD-GSI uses social media (@globalsubsidies) as a matter of course and employs a communications protocol for all major products. IISD-GSI has adopted webinars as an innovative (cost-effective, environmentally-friendly) way to help spread knowledge and build capacity. IISD-GSI has also developed more closed-door, round table sessions amongst policymakers to help build trust, alongside more familiar external workshops. In particular regarding the PSICE portion: interviews, workshops and presentations to foster matchmaking between developers and investors (local commercial banks and if possible MDBs as they have vast technical knowledge also) will be very important for policymakers to also attend. Much learning in developing, and investing in, clean energy projects is informal and is fostered via networks and learning by doing/ developing/ investing. Annual reporting on impact and outputs to donors allows for ongoing reflection as to what has (and had not) worked. The proposed one-day consultative meeting of key donors offers a further opportunity to evaluate lessons learned, as does the project mid-term review.*<br><br>Also, the following has been added after the paragraph in Section 7 currently mentioning the annual one-day consultative meeting: *the agenda will include: a review of the state of play on the issues* |

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| | *IISD-GSI is working on (essentially the Outcomes and scope of this Project); a review of IISD-GSI's progress and impact over the past year; a review of collaboration with Danish-supported organisations and initiatives and other important organisations and initiatives; a financial and operational review; planning the next year's work programme; any special agenda items (for example finalizing the choice of which further country(ies) to focus on, the mid-term Evaluation). The 3 donors expected to attend are IISD-GSI's key donors and therefore have the power to propose or take decisions. IISD-GSI will draft an initial agenda for the meeting and an initial workplan for the coming year, to give the 3 donors specific suggestions to react to and develop".* |
| 5. In the risk management matrix clarify whether sufficient human resources is included as a programmatic risk and insert a short explanation on the background to the assessment of the identified risk of *IISD-GSI staff and resources could be inadequate or not available when needed.* | The following has been added as background explanation for this risk factor: *"The planning of this project reflects IIISD-GSI's view that this is very much a team effort rather than specific individuals for specific tasks. However, IISD-GSI is a small organisation and GSI's work is highly specialized and innovative. While work on taxation is new, IISD-GSI sees this work as very much a continuation of the work on subsidy reform. Also, GSI will need to increase capacity to work on PSICE.* |

I hereby confirm that the above-mentioned issues have been addressed properly as part of the appraisal and that the appraisal team has provided the recommendations stated above.

Signed in Copenhagen on the 16 June 2019 Tobias von Platen-Hallermund
Appraisal Team leader/TQS representative

I hereby confirm that the responsible unit has undertaken the follow-up activities stated above. In cases where recommendations have not been accepted, reasons for this are given either in the table or in the notes enclosed.

Signed in…….on the……..…..……..…

Head of Unit

## Annex 10: IISD/GSI Organisation and Staffing for Project Delivery

IISD has offices in Winnipeg, Geneva, Ottawa and Toronto. IISD works in nearly 100 countries. IISD's board of directors has 14 members from 7 different countries. IISD is led by an Executive group headed by the President and CEO – there is currently no Danish representation, but there has been a Danish Board Member in the past and new Board Members are currently being considered with Danish candidates.

IISD is organised around its Strategic Plan, which covers 5-year periods. A new plan for the years 2020-2024 is currently under development, led by the Interim CEO & President, Jane McDonald. This is likely to lead to reorganisation and restructuring to at least some extent, as IISD seeks to maintain and expand its influence and relevance in what is a rapidly-changing environment for organisations of its type.

The current Strategic Plan (2014-19) includes 6 Strategic Goals. IISD is structured into 6 Programmes to meet these (see the figure below). IISD-GSI is one of the pillars of the "Energy" programme, along with Sustainable Energy Supplies and International Climate Change Mitigation.

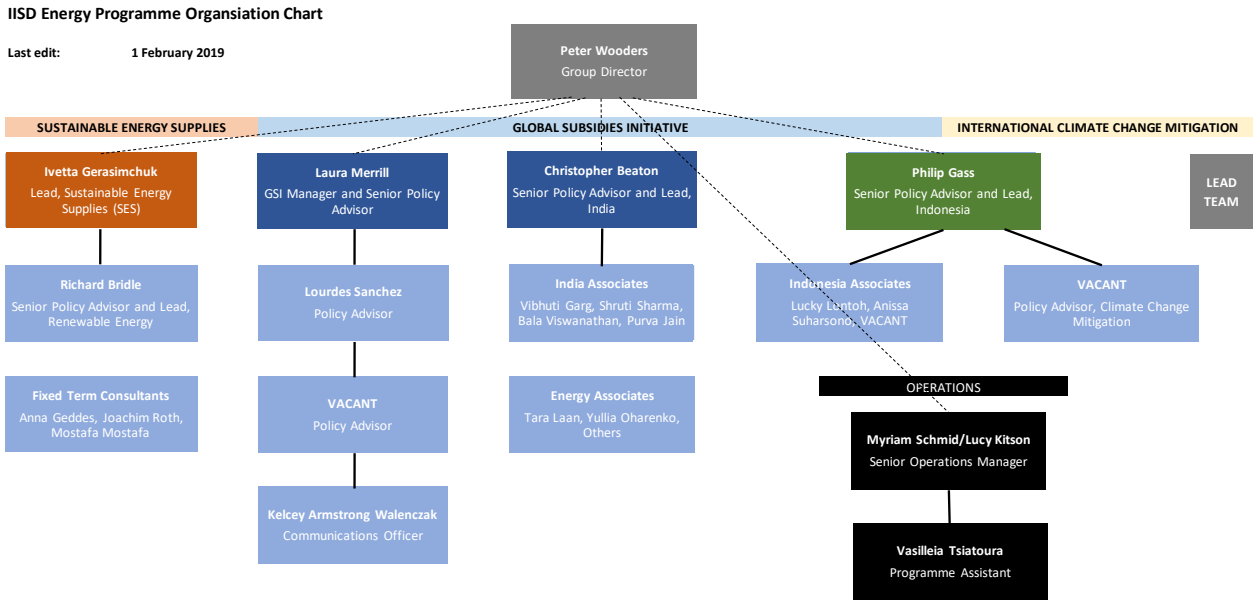

- IISD encourages strong collaboration across its Programmes. Of particular relevance to this project are: The Economic Law and Policy (ELP) Programme works internationally, regionally and in many individual countries to push for and support the move to investment agreements and practices which promote Sustainable Development rather than acting against it. ELP has well-established relationships with governments, notably in the developing world. Many ELP staff have a legal specialisation and are experts in trade issues – both highly relevant to Energy work, for example as we look to see how the Energy Charter Secretariat should look to reform or how the trade agreements being signed are beneficial or otherwise for clean energy interests. Finally, the Sustainable Infrastructure & Public Procurement pillar within ELP focuses on finance issues and is active in both energy efficiency financing and in the assessment of clean energy holdings

in investment portfolios. That practice is currently working with both IRENA and the IDB;

- The Resilience Programme works across the world, including through its National Adaption Planning (NAP) Global Network. Clean energy can be part of the solutions it advises. Resilience has strong networks in many countries and organisations and is also involved in financing discussions;
- Reporting Services (Events) and Knowledge (Analysis and Outreach) provide platforms for

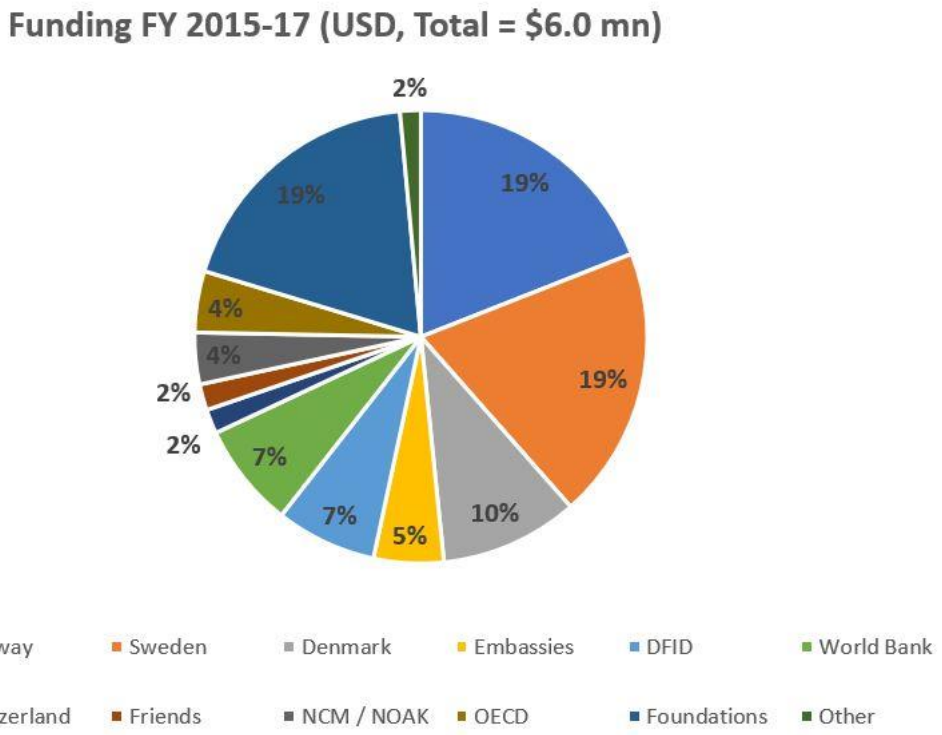
IISD has about 125 staff as a whole; IISD's Energy Programme currently (1 February 2019) has 10 staff, 3 fixed-term consultants and 8 Associates (who work a large share of their time for IISD). Around half of these, including the "Lead Team" and all staff, are based in Geneva. IISD's Associates are located in India (currently 4) and Indonesia (2 with one vacancy), Ukraine and Australia.

An Organigramme of the Energy Programme with reporting relationships is shown in the figure below. IISD Energy's 3 pillars – Sustainable Energy Supplies, GSI and International Climate Change Mitigation – each have specific leadership. GSI is the largest part of IISD Energy, representing over half of activities. GSI's manager is responsible for planning and operations and is thematic lead for work on the "Friends", Subsidies and Climate Change (including NDCs) and Gender. The India and Indonesia in-country work programmes are a major focus for IISD Energy and each has a Lead, who the Associates for these countries report to. These Associates, the fixed-term consultants and all staff in Energy tend to work across the 3 pillars, based on their specialities, experience and the work that is being undertaken at any time.



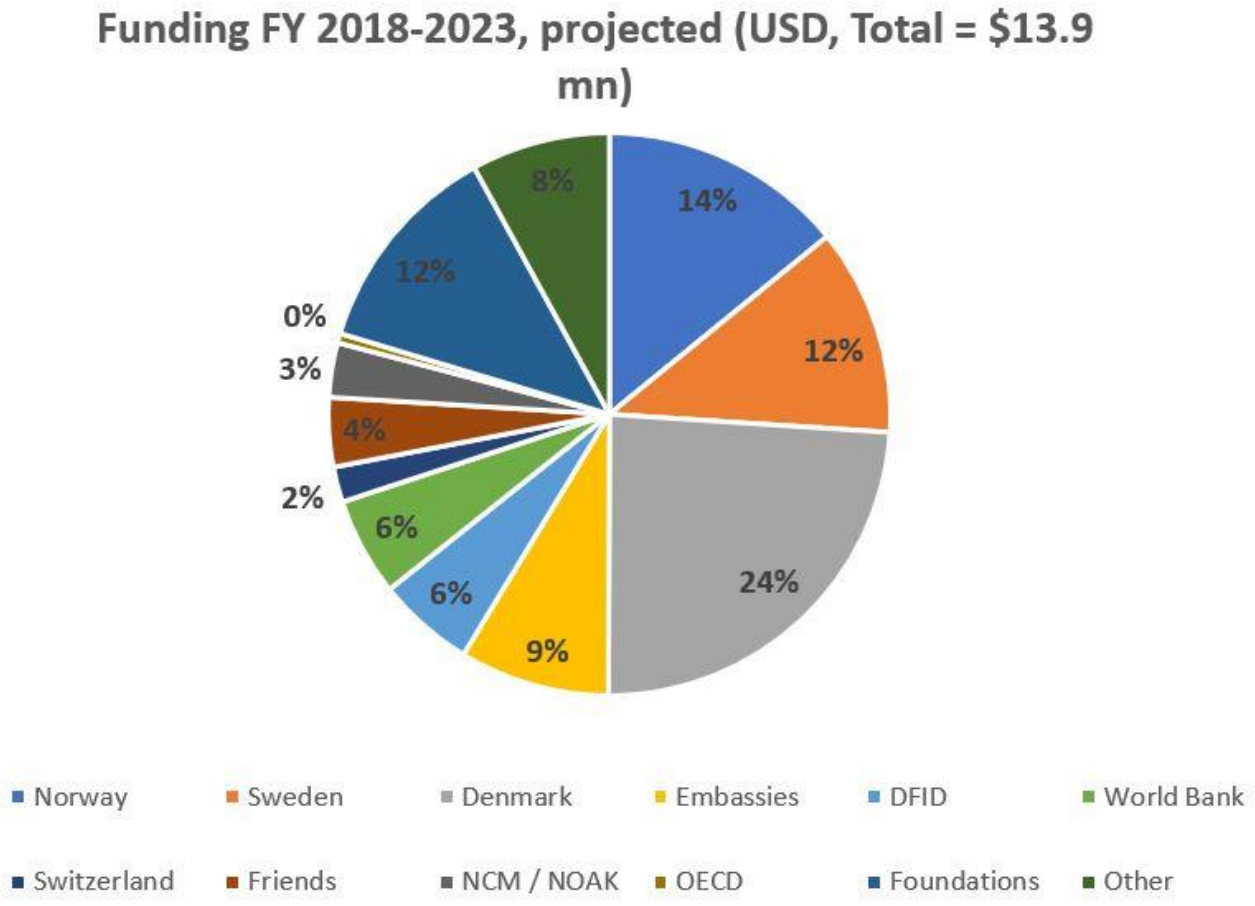
# Annex 11: Other Donor Support to IISD-GSI

| FY 2015-2017 | Financial Years (actuals) | | | |
|---|---|---|---|---|
| *All figures USD* | 2015 - 16 | 2016 - 17 | 2017 - 18 | TOTAL |
| Norway | 382.190 | 382.190 | 382.190 | **1.146.570** |
| Sweden | 584.871 | 231.294 | 355.893 | **1.172.058** |
| Denmark | 283.151 | 62.450 | 249.802 | **595.403** |
| Embassies | 56.486 | 174.153 | 70.334 | **300.973** |
| DFID | 55.151 | 155.892 | 222.627 | **433.671** |
| World Bank | 94.215 | 233.704 | 121.756 | **449.675** |
| Switzerland | 27.270 | 28.672 | 48.477 | **104.419** |
| Friends | 47.928 | 29.054 | 35.090 | **112.073** |
| NCM / NOAK | 11.847 | 153.625 | 56.215 | **221.687** |
| OECD | 116.436 | 147.362 | - | **263.798** |
| Foundations | 291.550 | 397.597 | 445.187 | **1.134.335** |
| Other | 19.867 | 12.500 | 56.851 | **89.219** |
| All | 1.970.962 | 2.008.494 | 2.044.424 | **6.023.880** |



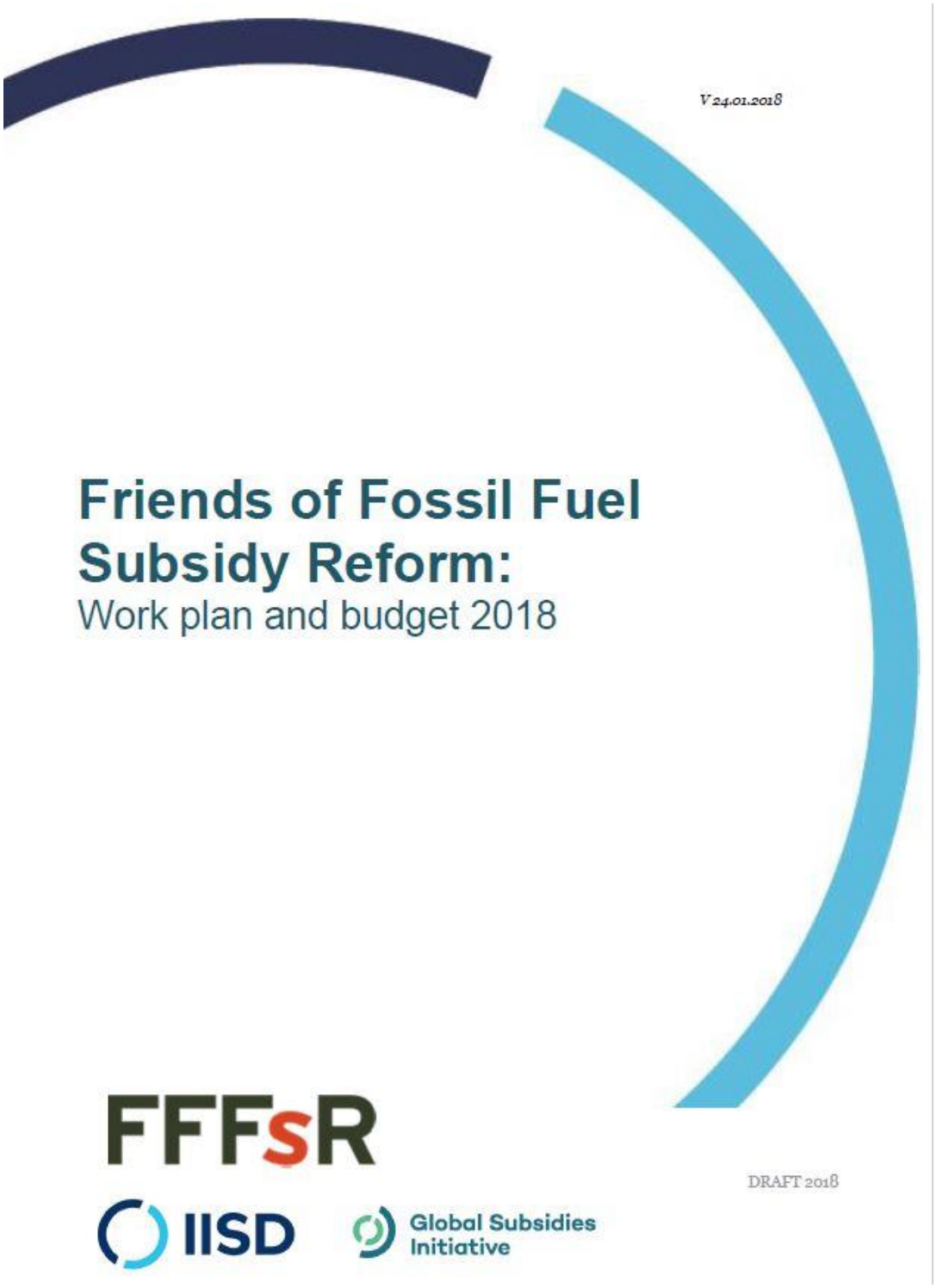
| **FY 2018-2023**[24] | Financial Year - projected in Red | | | | | | |
|---|---|---|---|---|---|---|---|
| ***All figures USD*** | **2018-19** | **2019-20** | **2020-21** | **2021-22** | **2022-23** | **TOTAL** | *Exch Rate* |
| Norway[25] | 392.231 | 392.231 | 392.231 | 392.231 | 392.231 | **1.961.153** | *8,4984* |
| Sweden[26] | 331.190 | 331.190 | 331.190 | 331.190 | 331.190 | **1.655.951** | *9,05824* |
| Denmark[27] | 277.028 | 765.707 | 765.707 | 765.707 | 765.707 | **3.339.857** | *6,52991* |
| Embassies | 100.000 | 200.000 | 300.000 | 300.000 | 300.000 | **1.200.000** | |
| DFID | 155.892 | 155.892 | 155.892 | 155.892 | 155.892 | **779.462** | |
| World Bank | 110.000 | 150.000 | 175.000 | 175.000 | 175.000 | **785.000** | |
| Switzerland | 37.000 | 50.000 | 65.000 | 65.000 | 65.000 | **282.000** | |
| Friends | 110.664 | 110.664 | 110.664 | 110.664 | 110.664 | **553.322** | |
| NCM / NOAK | 87.000 | 87.000 | 87.000 | 87.000 | 87.000 | **435.000** | |
| OECD | 15.000 | 15.000 | 15.000 | 15.000 | 15.000 | **75.000** | |
| Foundations | 220.000 | 300.000 | 400.000 | 400.000 | 400.000 | **1.720.000** | |
| Other | 60.000 | 150.000 | 300.000 | 300.000 | 300.000 | **1.110.000** | |
| All | 1.896.006 | 2.707.685 | 3.097.685 | 3.097.685 | 3.097.685 | **13.896.746** | |

[24] Assumptions taken from IISD-GSI Business Plan2018-20 with last 2 years flat - actuals soon available for FY 18/19, forecast for FY 19-20 available.
[25] Secured July 2018-June 2020 - NOK 10 million. Renewal projected at same rate.
[26] Annual renewal (Calendar year) - SEK 3 million/year. Renewal project at same rate.
[27] Current project runs to end-June 2019. Proposal for July 2019-June 2023 - DKK 20 million.


Funding FY 2018-2023, projected (USD, Total = $13.9 mn)
14%
12%
24%
9%
6%
6%
2%
4%
3%
0%
12%
8%
Norway
Sweden
Denmark
Embassies
DFID
World Bank
Switzerland
Friends
NCM / NOAK
OECD
Foundations
Other

# Annex 12: Friends of Fossil Fuel Subsidy Reform - Work Plan and Budget 2018

Note: IISD-GSI will provide an update of this work plan in the final project document



## CORE OBJECTIVES FOR THE FRIENDS FOR 2018

**Continue to support a phase-out by 2025 and peer reviews by 2020 within the G20**: Support goal for G20 and encourage all Friends to support the phase out date, as well as for completion of peer review by 2020. For example via Joint Calls in key capitals ahead of the G20.
**Key research and messaging to support phase-out by 2025, peer review and support for the SDGs**: update of Friends Handbook, efforts around delivering the SDGs via FFS as a Means of Implementation, implementing the Paris Agreement, and promoting FFS SWAPs. TBC: research on trade distorting arguments of FFSR.
**Presence in 2018 at high profile energy, climate and finance events**: Clean Energy Ministerial, CoP24, and the HLPF (High-level Political Forum on Sustainable Development) and an additional event TBC.
**Scale up Friends efforts via a new Friends network and expanded website**: engaging new countries to scale up fossil fuel subsidy transparency and reform efforts across a broader coalition of willing and active countries. The focus will be to expand the Friends network around specific FFSR related topics (e.g. Peer Reviews, Communication, SDGs, SWAPs, trade, etc.) via targeted webinars aiming at building capacity and enlarging the network, as well as to provide the opportunity for information sharing between countries.

### *Core functions of GSI's support to the Friends*

1. Friends influencing activities and outreach
2. Research Products
3. Events
4. Building a Friends' Network for Action on FFSR
5. Logistical and administrative support

### Friends Outreach and Influencing Activities

#### *Activities*

1. In preparation for the G20 Leaders' summit, GSI will revise and update the Friends' handbook to be distributed to relevant Friends' representatives. The handbook would be updated to also provide background and context on FFSR within the G20 and APEC. **Estimated cost 5,300 EUR (staff time: 5,000 EUR, expenses: 300).**

2. In support of high level events GSI will develop and update a Friends calendar for influencing opportunities throughout the year. **Estimated cost 500 EUR (staff time: 500)**

3. Support the organization of two meeting of Friends' climate change officials on the sidelines of UNFCCC meetings. **Estimated cost: 5,000 EUR (staff time: 4,000 EUR; expenses: 1,000 EUR)**

4. Maintain the network of endorser contacts around the Communiqué, the MC11 Ministerial Statement endorsers and other potential supporting partners, which can be utilized around key Friends activities and events. The network of contacts might take form of a contact list which can be used to share information and short communications packages that can be used to easily post information on social media as well as potential invitees to join a broader Friends' Network. **Estimated cost: 2,500 EUR (staff time: 2,000; expenses 500 CHF)**

5. Support to the Friends behind opportunities for influencing as they occur throughout the year. For example a strong push linked to CoP 24 and Poland, around specific Articles within the Paris agreement, with reporting within the SDGs, communications around G20 or G7 outcomes, etc. **Estimated cost: 4,000 EUR (staff time: 4,000 EUR).**

6. Support Peer Reviews in emerging and developing countries, co-funding GSI's participation on voluntary Peer Review panels. **Estimated cost (co-funding): 5,000 EUR (staff time: 4,000; expenses 1,000 CHF)**

## Events

### *Activities*

The GSI will be responsible for organizing four Friends official events throughout 2018, including a workshop or side event at the Clean Energy Ministerial (May 2018), the UNFCCC CoP24 in Poland (December 2018), the HLPF (High Level Political Forum) around SDGs (July 2018), and one more event TBC considering Friends priorities for 2018.

- Friends of Fossil Fuel Subsidy Reform side-event at the **Clean Energy Ministerial** (CEM) May 2018 (May 22nd-25th) focused on **Swapping Fossil Fuel Subsidies for Sustainable Energy Solutions**, to continue to build the case for fossil-fuel subsidy reform linked to the SWAPS work. **Estimated cost: 10,000 EUR (staff time: 8,000 EUR; expenses 2,000 EUR)**

- Friends of Fossil Fuel Subsidy Reform event at the **UNFCCC COP24 in Poland in December 2018**. The Friends have a strong track record of hosting awareness raising and technical events on the side-lines of the COP negotiations. This event will be designed in the form of small round table groups, following the Talanoa Dialogue principles (TBC) with the aim to create awareness of FFSR and the opportunities from reform and expand the number of countries interested in FFSR. Among the benefits of reform highlighted, it will be discussed GHG emissions reduction in the context of Nationally Determined Contributions, mitigation efforts and a SWAP of savings from reform towards sustainable and renewable energy for further mitigation and adaptation opportunities. The event will be utilized to underline the widespread, multi-faceted support for fossil fuel subsidy reform and country level action. The event will be supported by a campaign around the link between fossil fuel subsidies, reform and climate change and **include a video and graphic design materials** to support the visual appearance of the event and provide materials that can easily be

shared with a large audience via social media. **Estimated cost: 25,000 EUR (staff time: 18,000 EUR; expenses: 7,000 EUR, co-funded)**

- Friends of Fossil Fuel Subsidy Reform official side-event at the **UN's HLPF (High Level Political Forum) in New York, July 9th -18th**. The event will focus on presenting the Friends work on the SDGs and more concretely, on **SDG 12**.c.1 (which measures the amount of fossil-fuel subsidies per unit of GDP (production and consumption) and as a proportion of total national expenditure on fossil fuels) as a Means of Implementation for other SDGs. The event will also showcase work on SWAPs and the opportunity for fossil fuel subsidy reform to support SDG7 i.e. sustainable energy access via targeting of savings from fossil fuel subsidy reform towards sustainable and renewable energy This will **include a video and graphic design materials** to support the visual appearance of the event and provide materials that can easily be shared with a large audience via social media. **Estimated cost: 17,000 EUR (staff time: 10,000 EUR; expenses: 7,000 EUR)**

- An additional Friends event on a topic that responds to the Friends priority themes in 2018 and following the opportunities that will arise throughout the year. **Estimated cost: 7,000 EUR (staff time: 6,000 EUR; expenses: 1,000 EUR)**

## Delivering a Friends network

### *Activities*

GSI will organize a series of **interactive, virtual, round table webinars** throughout the year aimed at scaling up action on fossil fuel subsidy transparency and reform with emerging, developing and developed countries. The Friends' Network will develop a **broader group of countries** that have experienced or are experiencing reform convened by the Friends. The activity will consist of 5 invitation only webinars around specific topics related to FFSR, targeting country high-level officials (ideally from Ministries of Finance and/or Energy) and policy makers. Speakers will include global experts from countries, IOs and research institutions, and the discussions will happen under the Chatham House Rule to favor open exchanges from countries. The focus would be on those countries that endorsed the Communiqué or supported the Ministerial Statement at the MC11 in the initial instance, but would not be exclusive to this group of countries – for example to enable lessons to be shared from countries such as India and Indonesia, as well as bring in other G20 influencers such as France and Canada.

**Estimated cost TOTAL 28,000 EUR (5,600 EUR per webinar: staff time 5,500 EUR; expenses 100 EUR).**

## Research Products

### *Activities*

As a means to further build on and support the advocacy role of the Friends, broaden the scope of influence around FFSR and promote reform internationally, two distinct research products are proposed:

- Research paper on the linkages and impacts of FFSR and the SDGs, SWAPs, trade implications and targeting towards sustainable energy access (SDG7), gender, etc.
- Research paper or brochure to support the Friends event at UNFCCC CoP24. The topic will be agreed with the Friends. Potential topics are: FFS, SWAPs and the Paris Agreement, appropriate taxation of FF, etc

**Estimated cost: 30,000 EUR (staff time: 27,000 EUR; expenses: 3,000 EUR).**

## Logistical and administrative support

### *Activities*

1. Support an annual face-to-face meeting of the Friends in 2018 in Europe. Tasks would include: help prepare the agenda; suggest and contact outside participants (if deemed desirable); take notes at the meeting and prepare a summary report.
**Estimated cost: 3,000 EUR (staff time: 2,500 EUR; expenses 500 EUR).**

2. Organize monthly teleconferences among the Friends for regular planning and information sharing as well as drafting meeting notes.
**Estimated cost 4,000 EUR (staff time 3,000 EUR; expenses 1,000 EUR).**

4. Update the structure of the Friends website (www.fffsr.org), focusing on information sharing instead of the Communiqué and transform it in a "one stop shop" to share information on FFSR. This activity will include expanding the website to cover the above, as well as regularly maintaining and updating the website on FFSR related topics throughout the year.
**Estimated cost: 15,000 EUR (staff time: 5,000 EUR; expenses 10,000 EUR).**

Administrative functions such as preparing work plans, contact details, budgets and reporting. **Estimated cost: 2,000 EUR (staff time: 2,000 EUR).**

## Budget

Total staff time: 128,000 EUR
Total expenses: 35,300 EUR

Total estimated budget: 163,300 EUR

## International Institute for Sustainable Development

The International Institute for Sustainable Development (IISD) is one of the world's leading centres of research and innovation. The Institute provides practical solutions to the growing challenges and opportunities of integrating environmental and social priorities with economic development. We report on international negotiations and share knowledge gained through collaborative projects, resulting in more rigorous research, stronger global networks, and better engagement among researchers, citizens, businesses and policy-makers.

IISD is registered as a charitable organization in Canada and has 501(c)(3) status in the United States. IISD receives core operating support from the Government of Canada, provided through the International Development Research Centre (IDRC) and from the Province of Manitoba. The Institute receives project funding from numerous governments inside and outside Canada, United Nations agencies, foundations, the private sector, and individuals.

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## Global Subsidies Initiative

The IISD Global Subsidies Initiative (GSI) supports international processes, national governments and civil society organizations to align subsidies with sustainable development. GSI does this by promoting transparency on the nature and size of subsidies; evaluating the economic, social and environmental impacts of subsidies; and, where necessary, advising on how inefficient and wasteful subsidies can best be reformed. GSI is headquartered in Geneva, Switzerland, and works with partners located around the world. Its principal funders have included the governments of Denmark, Finland, New Zealand, Norway, Sweden, Switzerland and the United Kingdom, as well as the KR Foundation.

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