



Equitable Framework and Finance For Extractive-based Countries in Transition (EFFECT)

Rationale

The shift towards a global low-carbon economy is an imperative, but it follows different trajectories in developing and advanced economies, as they start with different natural endowments, industrial basis and development needs and priorities. Transitioning the global economy to a low-carbon development model is not just about reducing emissions or replacing fossil fuel energy sources with cleaner alternatives. It requires structural changes, including the way in which energy is produced and consumed, the transformation of production and consumption patterns, as well as the way in which infrastructure and cities are built, while adapting to the growing frequency and intensity of extreme weather events and managing potential adverse socio-economic impacts.

While desirable, leap-frogging immediately to a green economy is not a realistic option for many developing countries, let alone extractive-based ones. Developing countries can reap large benefits by leap-frogging to a green economy. However, this has not been done before, and it is far from easy to do, in particular for extractive-based economies where **rapid demographic growth and urbanisation increase demand for energy**, while **network and distribution infrastructure remains poor**, and whose **development models rely on revenue from or cheap access to fossil fuels**. In addition, extractive-based economies face a **huge technology gap that could slow their transition and even lock them into high-carbon development pathways**. This could result in a two-track transition, where extractive-based economies continue to produce emissions-intensive products for domestic use and export to other developing countries, while advanced economies decarbonise and invest in frontier low-carbon technologies.

The low-carbon transition poses specific challenges to extractive-based economies development models, and fiscal sustainability issues that must be recognised. Extractive-based economies are highly exposed to a decline in fossil fuel consumption and prices, as **oil exports can account for 60% or more of fiscal revenue – in some cases even above 90%** -- and most of them are **fiscally constrained and highly indebted**. **These countries could see a drop of 51% in government oil and gas revenues in a shift to a low-carbon world over the next two decades according to Carbon Tracker**. For **extractive-based** economies the conundrum lies in their exposure to extractives as a source of export revenues, foreign exchange, energy, and employment, with knock-on effects on infrastructure built around high-carbon industry projects for domestic power generation and transport (including rail, power plants or ports).

What needs to be done?

To remain competitive in a low-carbon world, extractive-based economies **need better access to low-carbon technologies** (both renewables and energy efficiency), **enabling measures that incentivise** low-carbon development and **de-risk investments**, and **transition finance** to mobilise the resources required to fill the technology gap.

At the national level, well-designed **just transition plans**, based on integrated planning and policy-making on energy, industrial, climate and urban development and associated infrastructure needs can help identify **the lowest cost pathways** to delivering affordable, reliable, sustainable and modern energy access, industrialisation goals, sustainable infrastructure options as well as the optimal balance between on-and off-grid power supply over time. **Getting broad community buy-in** for the low-carbon transition, through adequate social protection measures, will also be key to achieve the changes needed and **overcome resistance from potential “losers”**. **Leaving no one behind is not only a**



moral obligation but reflects the interests of OECD countries, as millions of people are knocking at the European and US borders.

International cooperation is essential for building capacity to manage transition risks, invest in diversification and transition support, and mobilise the required financial resources for the diffusion of technological solutions for low-emitting and climate resilient infrastructure. This will help mitigate the risk of increased exposure to climate change, stranded assets and debt distress. Providing institutional support will also be necessary to **get policy, regulation, and pricing right to attract private sources of finance and foster technology transfer**, while assessing the cross-border impact low-carbon policies on developing countries (such as carbon border adjustment taxation).

Mineral producing countries have the opportunity to build forward better.

The **production of critical minerals** such as copper, graphite, lithium and cobalt is **expected to increase considerably (up to 500% by 2050) to meet the growing demand for clean energy technologies**. The World Bank estimates that **over 3 billion tons of minerals and metals will be needed to deploy wind, solar and geothermal power, as well as energy storage, required for achieving climate objectives**. Although there is uncertainty around future technology development and choices, **mineral-rich developing countries should seize the opportunity created by the low carbon transition, including the creation or adaptation of new technologies for higher levels of value added produced locally**. This will require **cooperation between consuming and producing countries, to build sustainable and low-carbon supply chains from extraction to waste management and site rehabilitation**.

What we do

DEV assists extractive-based economies transition to a low-carbon future, as they are those most exposed and less prepared to manage transition risk.

A two-track approach is proposed:

- whereby any **fossil fuel production that will be part of the domestic energy mix will need to become carbon neutral** (through emission abatement or sequestration, supported by technology transfer and innovative public-private partnerships)
- While, at the same time, **putting in place the enabling conditions to accelerate the process of shifting away from fossil fuels and achieving systemic change, including by re-investing revenues from time-bound fossil fuel investments into renewable energy generation and broader decarbonisation efforts**.

Key deliverable → *Equitable Framework and Finance For Extractive-based Countries in Transition (EFFECT)*: A blueprint for action to assist policy makers in designing comprehensive strategies to advance the low-carbon transition, avoid high-carbon lock-in and leave no-one behind in a global low-carbon economy (while accounting for potential adverse impacts on workers and communities). The Framework is structured around three Pillars: 1) Decarbonisation of extractives (through technological innovation and collaborative approaches for technology transfer; enabling measures and incentives; and financing); 2) Exit strategies; 3) Systemic decarbonisation of extractive-based economies.

Who we are

Governments' representatives from OECD and partner producing countries, as well as industry stakeholders, international organisations and think tanks/civil society representatives are all working together to develop shared approaches for actionable, and where feasible, collaborative solutions.



Multi-Stakeholder Steering Committee (Co-chairs: EU and Nigeria)	
Governments	Brazil, Canada, Colombia, Czech Republic, Ecuador, Finland, France, Japan, Nigeria, Uganda, United Arab Emirates, Uruguay
Industry	Amalgamated Banks of South Africa, BP, Enel, Eni, Exxon Mobil, Houston International Business Corp., Nigerian National Petroleum Corporation, Petrobras, Petroecuador, Petrosen, Saipem, Snam, Uganda National Oil Company, International Petroleum Industry Environmental Conservation Association (IPIECA), Oil and Gas Climate Initiative (OGCI)
Int'l Organisations and Institutions	Commonwealth Secretariat, European Union, Extractive Industries Transparency Initiative (EITI), International Labour Organization (ILO), OPEC, UNECA
Civil society	American Bar Association/Artus Wise, Carbon Tracker Initiative, Chatham house, Climate Transparency, Stockholm Environment Institute
Working Group on the role of the oil & gas industry in the low carbon transition	
Governments	Brazil, Ecuador, Israel, United Arab Emirates, Uganda
National Oil Companies	Ghana National Petroleum Corporation, Nigerian National Petroleum Corporation, Pertamina, Petrobras, PetroEcuador, Petrosen, Uganda National Oil Company, PetroVietnam
Int'l Oil Companies and industry associations	BP, Eni, Exxon Mobil, International Petroleum Industry Environmental Conservation Association (IPIECA), Oil and Gas Climate Initiative (OGCI), Snam
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Civil society and thinks tanks	Carbon Tracker Initiative, Chatham House, Climate Transparency, Stockholm Environment Institute, Natural Resource Governance Institute, REN 21