

## SUBMISSION

# Organization of Work Under the Veredas Dialogue in 2026

## Aligning incentives for the energy transition

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The International Institute for Sustainable Development (IISD) submits that **aligning incentives for the energy transition** should form a key part of the Veredas Dialogue, and we propose a workshop dedicated to the topic as part of this. In addition, the Xingu Finance Talks in 2026, in focusing on practical solutions that address the challenges and opportunities in the implementation of Article 2.1(c), should take up the topic of aligning incentives for the energy transition. At IISD, we have the expertise, government networks, and capacity to support such activities.

By “aligning incentives,” we mean phasing out public financial support to fossil fuels and increasing it for clean energy. Aligning incentives is particularly important because governments directly control public financial flows, can support technologies and geographies that attract insufficient private finance, and can crowd in private finance where it is most needed.

## Definition and Volumes of Public Financial Support for Fossil Fuels

Public financial support for the energy transition includes public subsidies, market-based lending by public institutions, and state-owned enterprise (SOE) investments. In 2024, public financial support for fossil fuels totalled at least USD 1.25 trillion. Most of that support was for subsidies in the form of direct budgetary transfers, tax expenditure, and prices regulated below market level, at around USD 921 billion in 2024 (Organisation for Economic Co-operation and Development & IISD, n.d.). Countries have not yet implemented their commitments, made at the 26th, 27th, and 28th United Nations Climate Change Conferences, to the “phase-out of inefficient fossil fuel subsidies while providing targeted support to the poorest and most vulnerable in line with national circumstances and recognizing the need for support towards a just transition” (United Nations Framework Convention on Climate Change, 2023).



The second largest category of public financial support for fossil fuels was capital expenditure by SOEs, with USD 296 billion for fossil fuel projects compared to USD 37 billion for clean energy.<sup>1</sup> SOEs are a powerful tool in the energy transition because they are under direct government control, shape the energy landscape in many emerging and developing economies, and have important roles in energy access and employment (Viswanathan et al., 2022).

The final category of public financial support for fossil fuels was international public finance, which totalled an estimated USD 37 billion in 2024 (Public Finance for Energy Database, n.d.).

## Solutions and Best Practices That the Veredas Dialogue Can Spotlight

Solutions and best practices exist; these could be spotlighted in the Veredas Dialogue. For instance, countries such as India and Zambia have made successful fossil fuel subsidy reforms (Gerasimchuk et al., 2025). Research by IISD has found that in phasing out fossil fuel subsidies, governments should

- **be transparent.** You can't manage what you can't measure. Transparency about environmentally harmful subsidies is the first step to reform (IISD, 2025). Preparing fossil fuel subsidy inventories, for example, is one way to build transparency (Urazova et al., 2025). Transparency is also key to engaging stakeholders, as gaining public buy-in is a critical success factor for successful subsidy reform.
- **take a phased approach.** Sudden, unexpected subsidy removals can cause economic and social disruptions, particularly for vulnerable populations. Taking a gradual, step-by-step approach increases the likelihood of success (Sanchez et al., 2020). Making a phase-out plan is a good way to plan and manage the approach through prioritization by impact (Kuehl et al., 2025).
- **take advantage of timing.** Evidence shows that the timing of reforms can play an important role in their success. For example, for consumer fossil fuel subsidies, taking advantage of low international oil prices can increase the success of reforms (Sanchez et al., 2020).
- **support people, not fuels.** Focusing on people and social protection is a way to shape reform. It makes more sense to help people directly (for example, through income support or cash transfers) than to keep subsidies that distort markets and production (IISD, 2025).
- **shift support to green solutions.** For example, fossil fuel subsidy reforms work better when they are part of a wider push for energy sector transformation. Reallocating savings from subsidy reform to alternative sources of energy and energy efficiency is a good way to support people, including the most vulnerable, alongside other social protection measures (Sanchez et al., 2020).

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<sup>1</sup> Data collection and calculation by IISD.



- **coordinate internationally.** For instance, the Coalition on Phasing Out Fossil Fuel Incentives Including Subsidies (COFFIS) is a coalition of 17 countries working to remove fossil fuel subsidies both collectively and through domestic action (IISD, n.d.). If provided a platform via the Veredas Dialogue, COFFIS members could provide valuable information about solutions for aligning incentives to support the energy transition.

Solutions exist, too, in respect of international public finance for fossil fuels. In 2024, an estimated USD 37 billion was provided to fossil fuels via international public finance, while USD 47 billion was provided to clean energy (Public Finance for Energy Database, n.d.). This fossil fuel finance represents a drop of nearly half compared with the 2019 figure of USD 71 billion for fossil fuels. Part of this success is thanks to the Clean Energy Transition Partnership (CETP), whose 40 government and public finance institution members committed to ending international public support for fossil fuels and instead scaling up support for clean energy. CETP members reduced their international public support for fossil fuels in 2024 by up to 78% compared with the 2019–2021 annual average (Jones et al., 2025). If given a platform via the Veredas Dialogue, CETP members could provide valuable information about solutions for aligning incentives to support the energy transition.

IISD submits that one workshop under the Veredas Dialogue in 2026 should be dedicated to the topic of **aligning incentives for the energy transition**. In addition, the Xingu Finance Talks in 2026, which will focus on practical solutions that address the challenges and opportunities in the implementation of Article 2.1(c), should take up this topic. At IISD, we have the expertise, government networks, and capacity to support such activities.

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