Theme 3: Making low-carbon and resilient investments: A leverage to renovate the economy in crisis

Adequate financial flows are urgently needed in the near future to support mitigation and adaption efforts in order to meet the 2 °C stabilisation target and to prevent developing countries from locking in carbon intensive development pathways. Climate finance can play a significant role in mainstreaming climate challenges into sectoral policies and decision making at the global and local levels albeit the adverse contexts of economic crisis, common public debt (most OECD countries), environmental urgency and current climate negotiations. This includes the development of financial mechanisms supported by established institutions, public and private interests. It is therefore imperative that international negotiations should provide a framework to climate finance initiatives.

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Background

A "global peaking of GHG emissions" compatible with the 2 °C target demands a deep restructuration of the existing capital stock in developed countries and massive redirection of infrastructure investments in developing countries to prevent them from locking in carbon-intensive development pathways. Climate finance can play a significant role in the low carbon transition despite the fragile economic recovery in the OECD countries, constraints on public budgets, deleveraging in the banking system, and securing funding for the Green Climate Fund. Problems have been encountered at all scales of intervention, calling for the need to identify effective public funding mechanisms tailored to the specific requirements of climate change policy.
Three components have to be considered when dealing with climate finance:

- The re-orientation of existing 'mainstream' financial flows so that they support climate change actions across economies through new financial mechanism. Proposals for financing climate change mitigation and adaptation as well as the transition towards sustainable energy have been elaborated and should be taken into account.
- The involvement of both public and private stakeholders to foster long-term investment and innovation processes entailed by the transition to a low carbon economy.
- How climate finance can support low carbon initiatives and new forms of cooperation.

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Key findings

Three set of key findings:

A first set relates to the ***role of low-carbon and resilient investments to renovate the economies in crisis***

- Low carbon development will require significant changes in the way that economic and financial systems operate, for example by establishing a new financial mechanism which is able to redirect the funding of investments towards low carbon projects;
- Considering the adverse effects of previous policies (e.g., regarding urban planning/energy dependency of households) in terms of social acceptability of Green tax reforms, climate finance by stimulating investments in low carbon projects could make taxes more palatable.

A second set relates to ***barriers and opportunities of financing/investing in mitigation and adaptation***

- Public funding mechanisms to support mitigation and adaptation efforts have shown to be ineffective in satisfying the short-term climate change agenda;
- More risk-sharing structures, involving both public and private stakeholders, are required to foster long-term investment and innovation processes entailed by the transition to a low carbon economy.

A third set relates to ***building consensus to support climate change policies***

- A broad participatory approach to develop climate action plans based on an iterative process is one way to integrate expert know-how, maximize transparency, acceptance and public engagement, and stimulate new cooperation schemes and joint approaches;
- Identifying the underlying social values that inform public attitudes to energy gives the opportunity to develop energy systems that maximize the potential for public engagement and consent.

A new financial mechanism is envisaged to redirect the funding of investments towards low carbon projects (LCP), as attaching a price to carbon alone does not efficiently spur the transition towards a LCS. This proposal should be incorporated as part of a general reform of the financial system. Climate policies for their part can stimulate sustainable and inclusive climate finance, in line with calls for a paradigm shift in climate negotiations in the Cancun Agreement. In the light of the world's glut of savings specifically earmarked for prudent investments, the mechanism proposed utilizes carbon pricing (based on an agreed notional price) to trigger a wave of low carbon investments throughout the world and release such savings, thus providing the lever for equitable access to development for developing countries and for a green economy in developed ones. This new financial system could be complemented with the implementation of environmental fiscal reform to foster the low carbon transition and a more inclusive growth.

The discussion addresses the barriers and opportunities for financing/investing in mitigation and adaptation. Although public finance is considered essential to implement climate change policies, public funding has proved to be largely insufficient, with major gaps in developing countries. Climate agreements are still key drivers of investment, yet effective policy implementation cannot be viewed as a mere reaction to regulatory pressure. In complement to established financing structures it is of overarching importance to mainstream climate change considerations into sectoral policies and decision making. Public-Private Partnership (PPP) can act as building blocks for comprehensive risk-sharing structures so as to convey

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additional private funds aimed at fostering innovation over the long term towards a sound transition to a low carbon economy.

Additionally, we point out that policies and measures can be designed and implemented based on broad, innovative participatory approaches aimed at maximising transparency, acceptance and public engagement. Climate change and energy policies can also be shaped based on underlying public values, which express preferences over future energy system configurations. Local low-carbon initiatives containing (some of) the basic features of a broader and more complex transition to environmentally sustainable ways of producing, consuming, and distributing energy within Europe (the so-called "Anticipatory Experiences") show that a system of risk management is crucial when dealing with the myriad forms of opposition, conflict, tension and resistance that can emerge in the energy transition process.

Way forward

The works point out that it is of overarching importance to consider simultaneously the issues of carbon emission mitigation, financial system stability, and global economic growth objectives. It is not possible to await the re-emergence of a stable growth regime before making decisions about climate policies. In the absence of rapid redirection of their investment dynamics, emerging economies will soon be locked into carbon-intensive development pathways, which will re-ignite the argument for inaction in developed countries, with deleterious consequences for all. Current works and actions can be oriented in three main directions:

- ***Improving the evaluation of climate finance needs.*** Huge literature is emerging on the issue but most climate and energy scenarios are not designed for the finance sector. Thus, while including many useful assumptions, they need to be 'adapted' to inform investment roadmaps, in particular to other industries important in terms of sustainable energy / energy efficiency.
- ***Improving the design of new financial devices/mechanisms able to redirect investments towards the low carbon transition.*** In the emerging body of literature on the finance-climate nexus, there is a significant need to define what a sustainable asset and a sustainable investment portfolio is, and to develop assessment frameworks in order to allow financial institutions to measure their 'performance' and set progress targets vis-à-vis energy-climate goals. Notwithstanding the vast literature on the principles of PPP management, only limited efforts have been made to investigate existing business models capable to attract the private party into investment activities, characterized by high public interest and higher business risk, like the projects on climate mitigation and adaptation.
- ***Fostering the dialogue on sustainable energy investment between investors and policy-makers***:
  - At the local level, the social dynamics of low carbon initiatives have to be considered in order to provide adapted and shared financial solutions.
  - At the global level, climate policies can stimulate sustainable and inclusive climate finance. A broader process of reflection on climate finance and sustainable energy for all has to be launched in view of contributing to the process which will lead to the Paris COP 21 in late 2015. A future agreement in Paris could hence provide a framework for this new system of financing.

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