

# Financing transition to Green Economy: Issues and Challenges

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# The Crisis: Developmental

- Global Food Crisis: more than 1 bn people at risk– hunger and malnutrition
- 1.2 bn people live in extreme poverty
- 2.6 bn w/o sanitation, 1.3bn w/o electricity, 0.9bn w/o drinking water
- Increase in wealth inequality– 80% world pop.
- 200 million jobs lost between 2009-2011
- Every 1% fall in growth– 20mn people consigned to poverty

# The Crisis: Environmental

- Dependence of nat res: 70% of 1.2 bn poor
- Ecological footprint: 52% more than absorptive capacity
- GHG emissions reaching 400ppm in 2013
- Total carbon budget available till 2050:  $\sim 700\text{GTCO}_2\text{eq}$
- Ensuing GT gap of 8-13  $\text{GTCO}_2$  by 2020

# The Crisis: Financial

- 2008 financial crisis cost: 2.3 trillion USD
- debt to GDP ratio– 218% in 2000 to 266% in 2010
- 37 govt spend 409 bn for lowering price of fossil fuels
- 2.8 bn in 2010– 40 fold increase in FF loan by Bank– 25 mn tonnes of CO<sub>2</sub> per yr

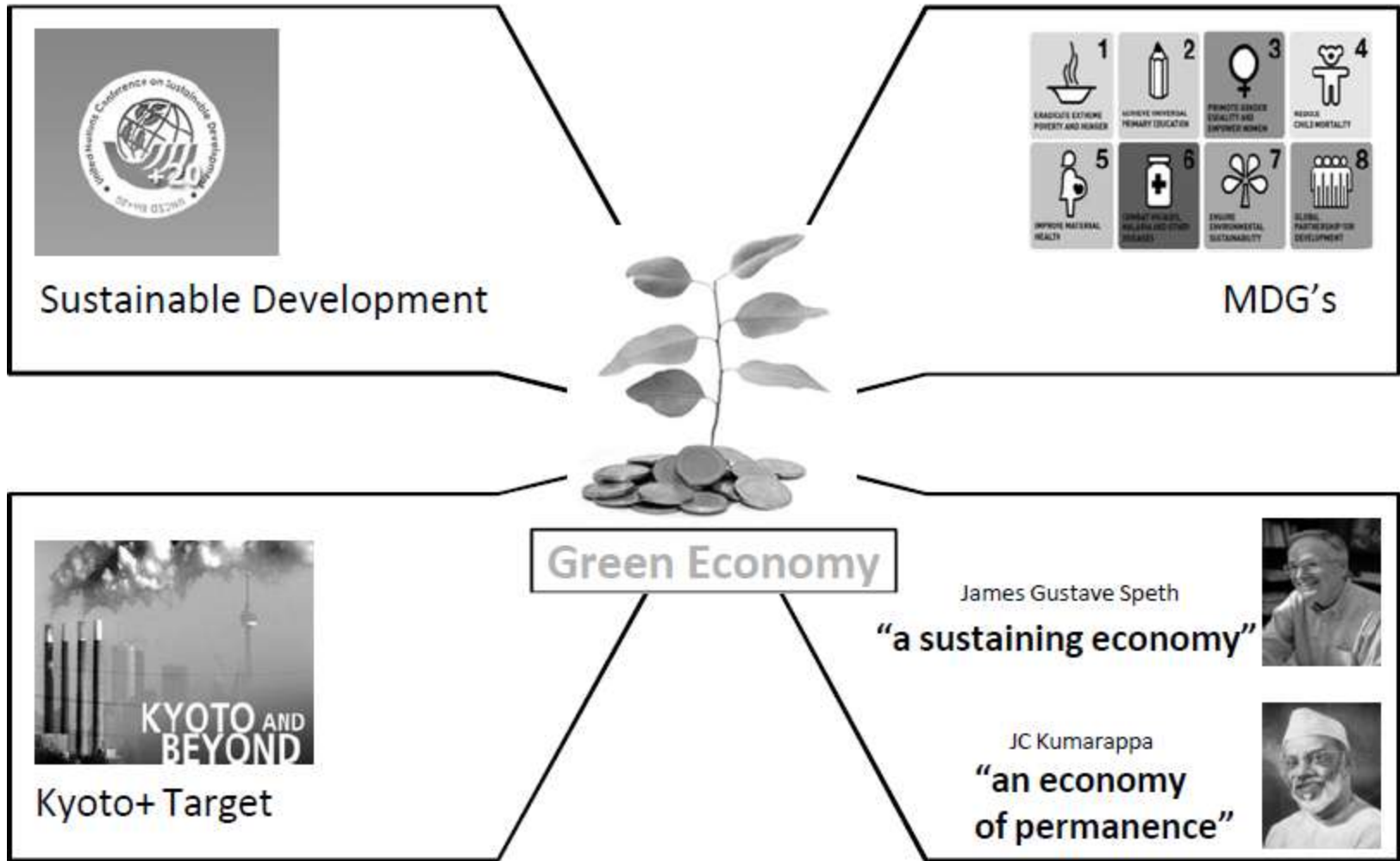
# Concept of Green Economy

- Captures economic dimension of sustainability
- Economic growth and environmental stewardship— complementary strategies for governments
- Holistic development— economic, social, environmental—particularly environmental equity



A green economy is different way of doing things. It is about recognising that our economies need to be guided by different goals, need to be sustained by different activities, and need to deliver different results.

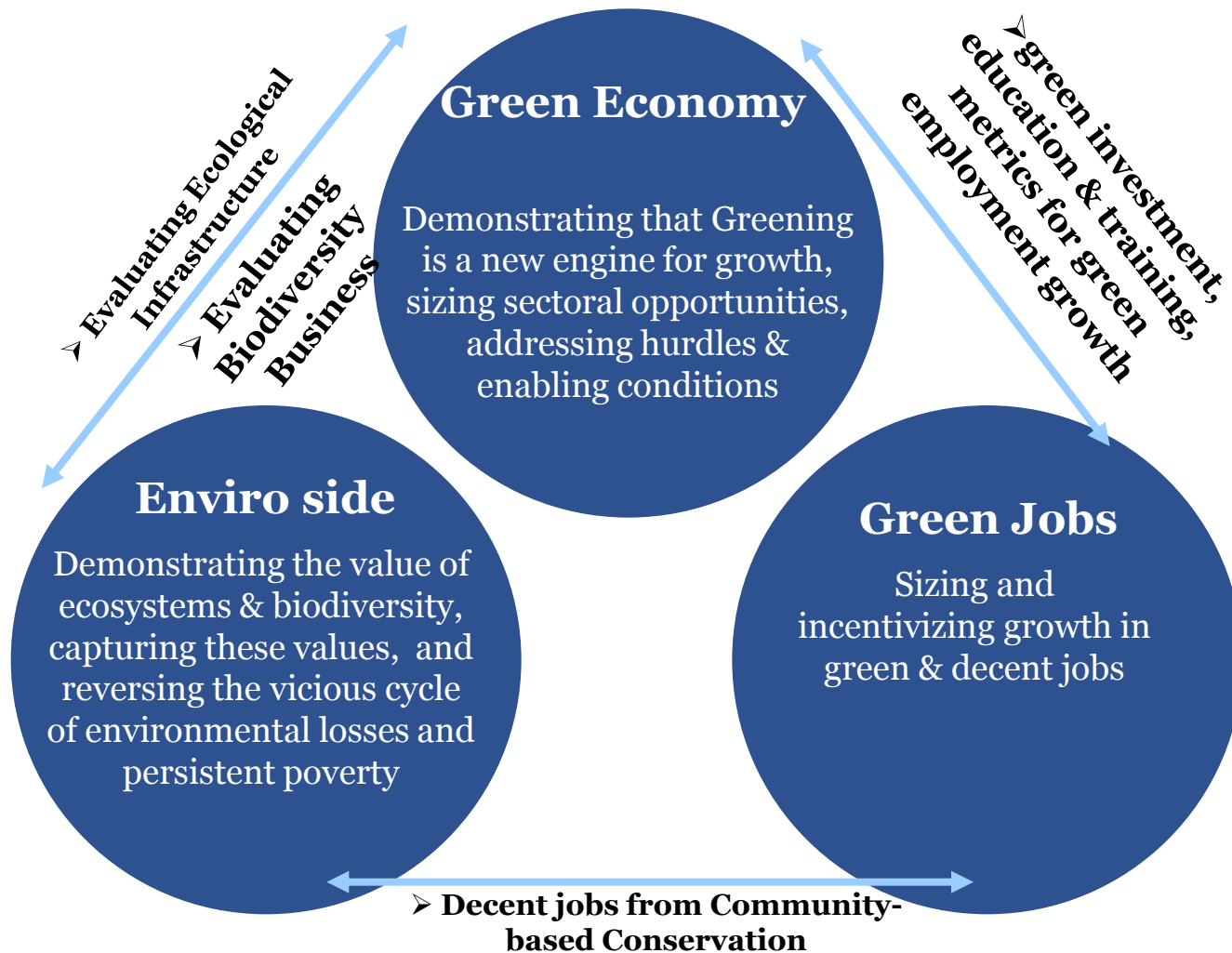
# A holistic view: Green Economy



# Macroeconomic dimensions of transition

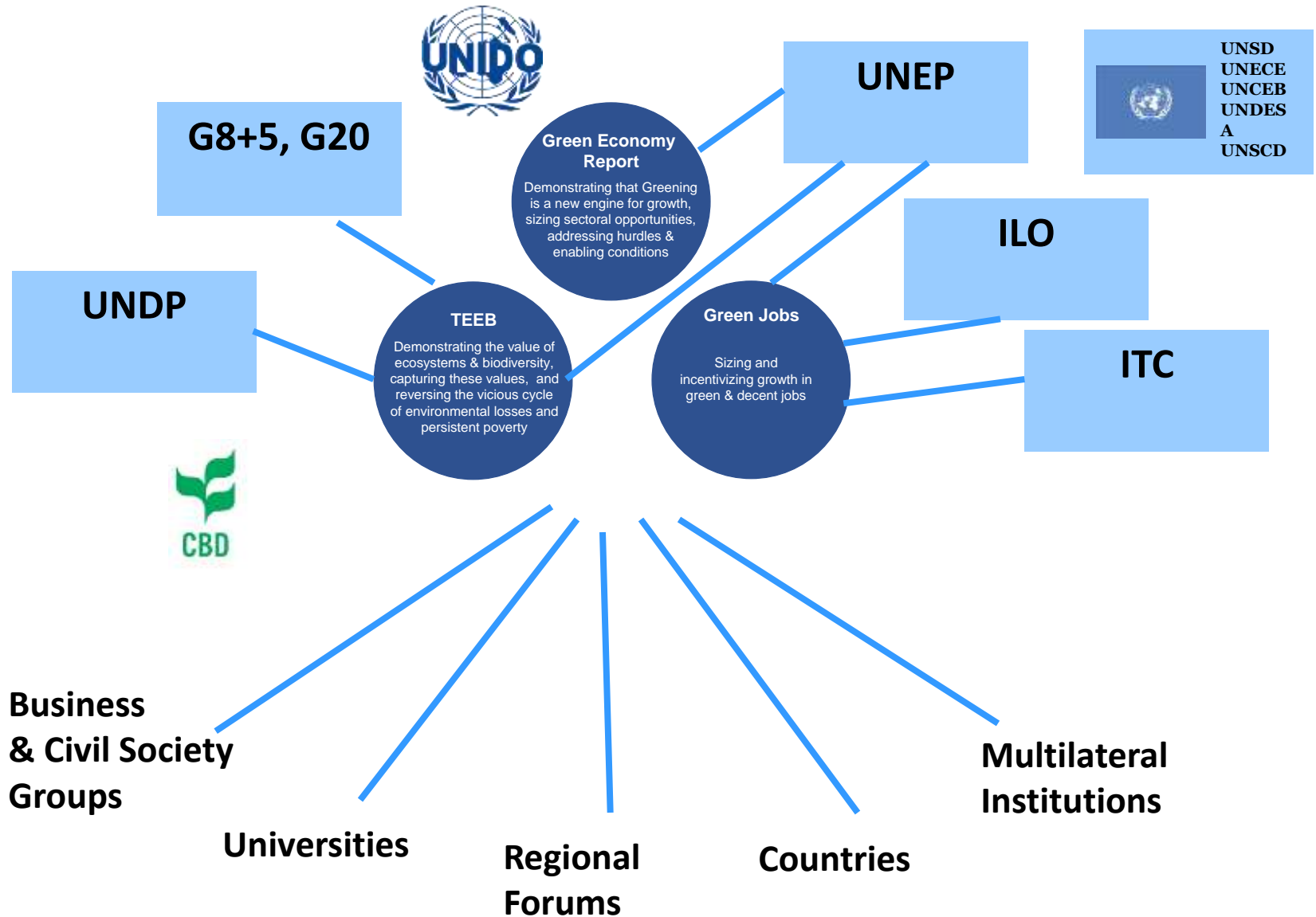
- Inter-temporal welfare— how the welfare of future gen is taken into account in current economic decision
- Effects of degradation on aggr ss and effects of environmental protection spending on ss and dd
- Effects of structural changes in productions and consumptions and their effect on economy
- Global institutions and their re-organisation affecting the transitions

# Structural form of initiatives





# ...the global Network of Institutions



# Implementing the Green Economy

## Technology Development and Transfer

Development of eco-friendly technologies, energy efficiency, renewable energy tech

Global technology Roadmap and R&D

Enabling environment for affordable access

## Financing

creating investments

creating green finance policies

creating enabling environment

# The financial obligations

G20, G8+5

Subsidies  
Stimulus packages

CBD

New Additional  
Cover agreed full  
incremental costs  
Adequate, predictable,  
timely flow

GREEN  
ECONOMY

ODA

0.7 percent for  
development

UNFCCC

Full Incremental cost  
Adaptation costs  
Actions linked to funds

# Financing: Enablers of Change

Current economic conditions across many parts of the world are demanding policy-makers to stimulate job creation and economic growth for their regions. At the same time recent weather shocks such as the floods in Thailand, the Philippines and Pakistan, combined with droughts in China, Africa and Brazil have cost the economy billions of dollars, disrupted major supply chains, and have created devastation for local farmers and communities.

We must find a new model for economic growth that does not further aggravate our climate and environment. Addressing climate change, can help grow green-technology sectors, create jobs and stimulate local economies – while at the same time securing a sustainable future. Many cities are changing their approach to economic growth, choosing a design that is more sustainable, with resilient pathways to economic growth. This strategic shift has been termed as “greening the economy” or making a “green growth” transition. This is creating a new opportunity that generates numerous co-benefits for all actors:

Local Job  
Creation

Economic Recovery /  
Growth

Productivity / Increased  
Competitiveness

Energy Security /  
Independence

Environmental  
Protection

Liveability / Quality of  
Life

# Problem of Financing

- Transition requires urgent green investments– but economic crisis, tightening fiscal situations– the scale of funds needed is difficult to mobilise

85% of financing must come from the private sector (UNFCCC)

- Leverage private sector through public sector funding is crucial– significant private investment absent because of perceived risks

government intervention critical to leverage this opportunity

- Required new financing mechanism, directing subsidies in the right way

global reforms of financial policies

# The existing financing policies

## Taxes

- Property Taxes
- Licence Fees
- Entertainment tax
- Sales tax

## Grants

- Funding from National, State or Provincial governments

## User Charges

- Water
- Sewerage & Drainage
- Tolls
- Fares etc.

## Lease Income

- Lease rental from land
- Lease rental from markets
- Lease rental from projects

# Innovative financing for Green Economy

## National Governments

Greening public spending / procurement  
Redesign grant-making based on local performance or ambition  
Facilitate access to new forms of green finance

## Climate Finance

Urban use in carbon markets - CDM & JI  
Local Offset Mechanisms and/or urban cap-and-trade schemes  
(e.g. Tokyo & Seoul)

## Green Funding

Green bonds help finance infrastructure projects to support climate mitigation  
Green Infrastructure Banks  
Multi-lateral Development Banks / Regional Development Banks (e.g. JESSICA by the European Investment Bank; Revolving Funds by the ERBD)

## Partnerships & Self Finance

Energy Savings Contracting (ESCOs)  
Public-Private Partnerships (PPPs)  
Green Growth Partnerships (City to City or City to Business)  
Real Estate Funds – energy efficiency or green buildings  
Venture capital funds

# Private sector initiatives



United Nations Principles for Responsible Investment (UN PRI) has gone from **50 signatories** in 2006 to **1000 signatories** in 2012, with assets of over **US\$30 trillion**.



Equator Principles has gone from **9 signatories** in 2002 to **74 signatories** in 2012.

CARBON  
DISCLOSURE  
PROJECT

The CDP project is supported by **655 institutional investors** – with assets of over **US\$78 trillion**.



In less than a decade, the number of companies following GRI's reporting guidelines has risen from **50 in 2000** to over **1500 by 2010**.



# The probable role for governments

- Develop transition roadmap for each major sector, through national regional multi-stakeholders dialogue
- Improve the quality of public services
- Right-direct the subsidies– only 15% of fossil fuel subsidy reaches to the poor (IEA 2013)
- Enabling environment for the green sectors through fiscal policies– support for innovation, minimise risk of green innovation