



E3G

Toward Low Carbon Resilient Economies: Implications for the Fast-Start Finance Package

Executive summary

September 2010

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A low carbon transition is underway but current efforts do not meet the $<2^{\circ}\text{C}$ imperative. Accelerating the low carbon transformation will require new models of low carbon development; the faster countries experiment with these models the better. Innovation will also be needed to effectively respond to the impacts of climate change: geopolitical realities make the prospect of a $<2^{\circ}\text{C}$ deal uncertain making it wise for countries to build climate resilience strategies guided by a principle of **'aim for $<2^{\circ}\text{C}$, plan for 4°C '**.

A hybrid system of public and private finance is needed to provide incentives to leave behind business-as-usual growth and development formulas, and to mobilise capital toward low carbon resilient economies. The fast-start package in the Copenhagen Accord needs to deliver **higher value for contributing countries and recipients**. This would allow for moving beyond one-off efforts, which lead to marginal efficiency improvements rather than transformational change. A key priority for 2010-2012 is to demonstrate the feasibility of climate resilient development strategies.

Moving toward a transformative fast-start finance package has **operational implications** for donors, recipients, investors and multilateral development agencies:

Developed countries

- > Secure allocation of funds for a diverse set of countries (small, medium and large economies) to design detailed long-term transformative models of decarbonisation and resilience;
- > Allocate a portion of the funds for implementation of transformative sectoral or city-level projects (e.g. transport sector) even if they entail higher costs;
- > Adopt a portfolio approach to delivering funds to increase a 'race to quality' among providers of climate finance and learning from multiple mechanisms;
- > Balance the short term need for 'quick wins' and the longer term benefits; avoid the current model of supporting one-off projects with little transformative potential (e.g. projects that focus on sourcing the 'cheap tonnes of carbon');

- > Switch to a model of engaged 'low carbon partnerships' that create opportunities for joint problem solving and longer term prospects for trust-building diplomacy. We need to move beyond stiff donor-recipient formulas.

Developing countries

- > Design pathways to decarbonise the economy (or at least key sectors) and build resilience to 2020 – underpinning the legitimacy of these strategies are transparent stakeholder engagement processes;
- > Invest in the design of, and public debate over, low carbon development plans (the 'what') that specify time-bound priorities and a specific financing route (the 'how');
- > Map out an institutional pathway for a country to lock-in structural change in priority sectors (e.g. blueprint for existing institutions or creation of new ones, dealing with incumbent interests) including mechanisms to assess and report progress publicly.

Private investors

- > Develop new low carbon investment vehicles, such as green bonds, to increase the learning about what works where;
- > Pioneer analytical tools and business models to map out strategic implications of climate change for their asset allocation – investors need to assess opportunities of moving toward a <2°C economy but also the risks of a 4°C world. No adequate empirical and analytical model exists in this area.

Development banks

- > Regional and national development banks aim to increase their role in climate finance but their lending still favours high carbon infrastructure; they could use the fast-start finance period to test mechanisms that de-risk low carbon investing in developing countries;
- > National development banks (e.g. KfW in Germany and BNDES in Brazil) in particular have accumulated on-the-ground experience that remains unknown in the international debate. A public good could be derived from the lessons learned from engaging the private sector within developing countries;
- > The World Bank's Climate Investment Funds (CIFs) are frontrunners in low carbon lending and could provide valuable lessons for the Bank and other development finance institutions. The World Bank needs a strategy to avoid the risk of CIFs becoming a one-off effort with little impact on the rest of the Bank's lending.