

MEDIA RELEASE

6 October, 2010 - 9:00 a.m.

Contact:

Tianjin: Monica Araya, +44 7883 530 792

U.S.: Katherine Silverthorne +1 (202) 744 5143

Europe: Nick Mabey +44 7949 768 771



Transforming the future with “Fast-Start” finance

Tianjin, An E3G report released at UN climate negotiations today shows that pioneering investment in high-risk, high-reward development models is essential to avoid carbon lock-in. The report, “*Toward Low Carbon Resilient Economies - Implications for the Fast-Start Finance Package*”, outlines the dangers of spending the \$30 billion in fast-start finance pledged at Copenhagen last year on short-term, least-cost emission reduction projects.

Recognizing that \$30 billion will not deliver climate security, the report finds that, if spent wisely, this money can achieve much more than the run of the mill projects currently in development.

“Testing new climate resilient development pathways is essential to give countries the confidence to take ambitious action,” said the report’s author, Dr. Monica Araya, “We should be witnessing a race to quality, not incremental change.”

Citing work by IEA, the report states that limiting global average temperature increases below 2°C requires mobilising at least \$1 trillion in investment every year. This scale will only be achieved by unlocking the capital currently channelled into investments in the high-carbon economy and shifting it into low-carbon opportunities. Past models of climate finance based on the Clean Development Mechanism and Global Environment Facility have failed to deliver this shift and have left clear gaps in areas such as adaptation, leveraging private capital, finance for transformation in middle-income economies and clean transport.

The decisions countries take now regarding long-lived infrastructure assets will define their future emissions pathways – essentially deciding whether a <2°C pathway remains on the table. Yet investment in low carbon pathways remains daunting when there is so little “proof of concept” showing the viability of low carbon development.

“An economic transformation, not small steps, is the key to securing our future prosperity,” stated Dr. Araya. “ We need to take bold action over the next two years to move outside our comfort zone to truly test transformative models and provide the confidence for future ambition,”

E3G’s Key Recommendations for a transformative fast start finance package:

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;

Continues

- > Balance the short term need for 'quick wins' and the benefits of 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.

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;
- > 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.

Editor's Notes:

1. E3G is an independent, non-profit organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere. More information is available at <http://www.e3g.org>