TIPPING POINT OR TURNING POINT - SCALING CLIMATE FINANCE IN THE FACE OF COVID-19

Jerry Velasquez

Director, Division of Mitigation and Adaptation

APPC Webinar 3: Green and Inclusive Recovery

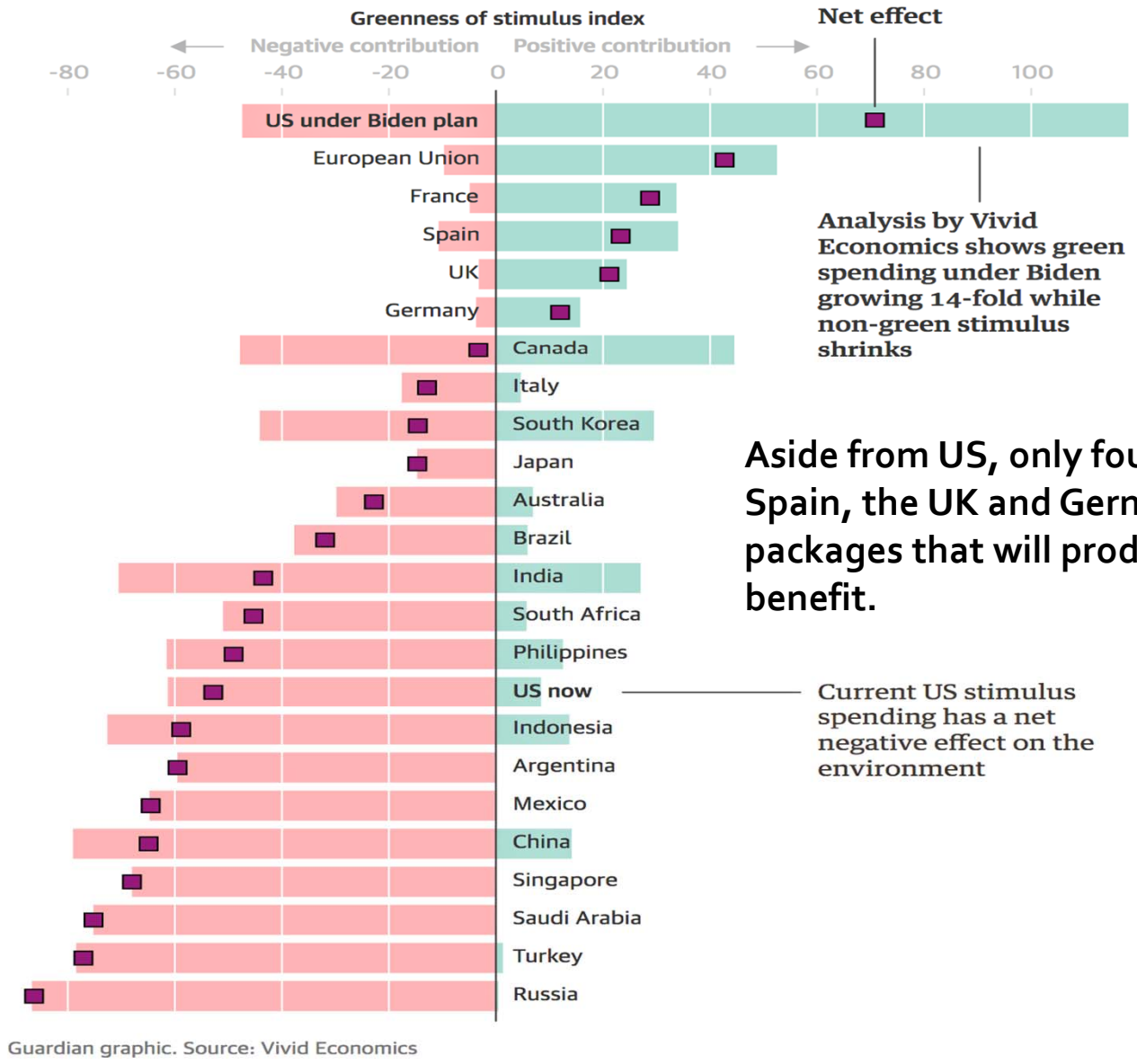
GREEN CLIMATE FUND

COVID-19

- A **decision point** in the fight against climate change.
  - Decisions today **either entrench** dependence on fossil fuels leading to tipping point, **or achieve** the Paris Agreement and SDGs
- **For turning point**, climate action and COVID-19 stimulus measures **must be mutually supportive**. Countries need **long-term affordable finance access**
  - Measures in G-20 **do not prioritise** green, resilient investments
- Developing countries' access to climate finance is **severely undermined** by the COVID-19-induced economic and financial crises.

GREEN RESILIENT RECOVERY

- World's biggest economies committed **> $12 trillion** to restart economies (source: IMF)
- US Congress passed **$900 billion stimulus package** with provisions to fight climate change, including RE.
- But many countries building out stimulus recovery plans have **failed to prioritize** clean energy investment, and policymakers and energy system participants are resorting to what they've done in the past.



Guardian graphic. Source: Vivid Economics

GREEN CLIMATE FUND

Aside from US, only four countries – France, Spain, the UK and Germany – and the EU have packages that will produce a net environmental benefit.

STATUS OF STIMULUS SO FAR

WHAT DRIVES THIS TREND?

SHORTERMINISM OF FINANCIAL SYSTEM

- **Some forms of risk** are well understood
  - E.g. Insurance spread
- However, **risk in the financial system is generally viewed in the short-term**
  - E.g. Investment banks have **access to fossil fuel asset risks** for years and **still 35 banks** (in Canada, China, Europe, Japan and US) **invested US$2.7 trillion** in fossil fuels, 4 years after Paris Agreement adoption (from 2016–2019)
  - **Why is this the case?**

3 CLIMATE RISKS TO FINANCE

- **Transition Risk**
- **Litigation Risk**
- **Physical Climate Risk**
  - Could **impact 72 out of 79 industries** assessed by the Sustainability Accounting Standard Board.
  - This equates to **USD 27.5 trillion**, or 93 per cent of equities by market capitalisation in the US alone, and represents a **systematic risk to the stability of the financial system** and security of societies.
  - **Diversification does not eliminate climate risks**. As a result, investors need to understand and adequately price their climate-risk exposure.

PRICING CLIMATE RISKS

- **Impact on own operations and on investment selection**
- **Daunting challenge** for entrepreneurs and financiers
  - Requires estimation of **likelihood of various climate scenarios** and implications at firm and project levels.
  - **Time horizon for changes too long** even for institutional investors
- Early signs of **asset re-pricing -** significant underperformance of oil and gas sector
- Auto manufacturers who have been slow on the transition to electric vehicles are **suffering in their relative values**.
- Despite the above, a 2019 IMF study found that **equity valuations across countries did not reflect any global warming scenarios and projected changes of physical risk**.

HOW CAN WE MAKE FINANCE MORE SUSTAINABLE?

ROLE OF PUBLIC SECTOR

- Measuring the right things and setting the right targets
- Aligning incentives to support better outcomes
- Driving socially useful innovation
- **Ensure capital acts for the long term**
- **Price capital according to the true costs of business activities**
- **Innovate financial structures to better serve sustainable business**

Source: CISL's *Rewiring the Economy* framework

CHANGING CAPITAL FLOWS
(EXAMPLE IN ENERGY)

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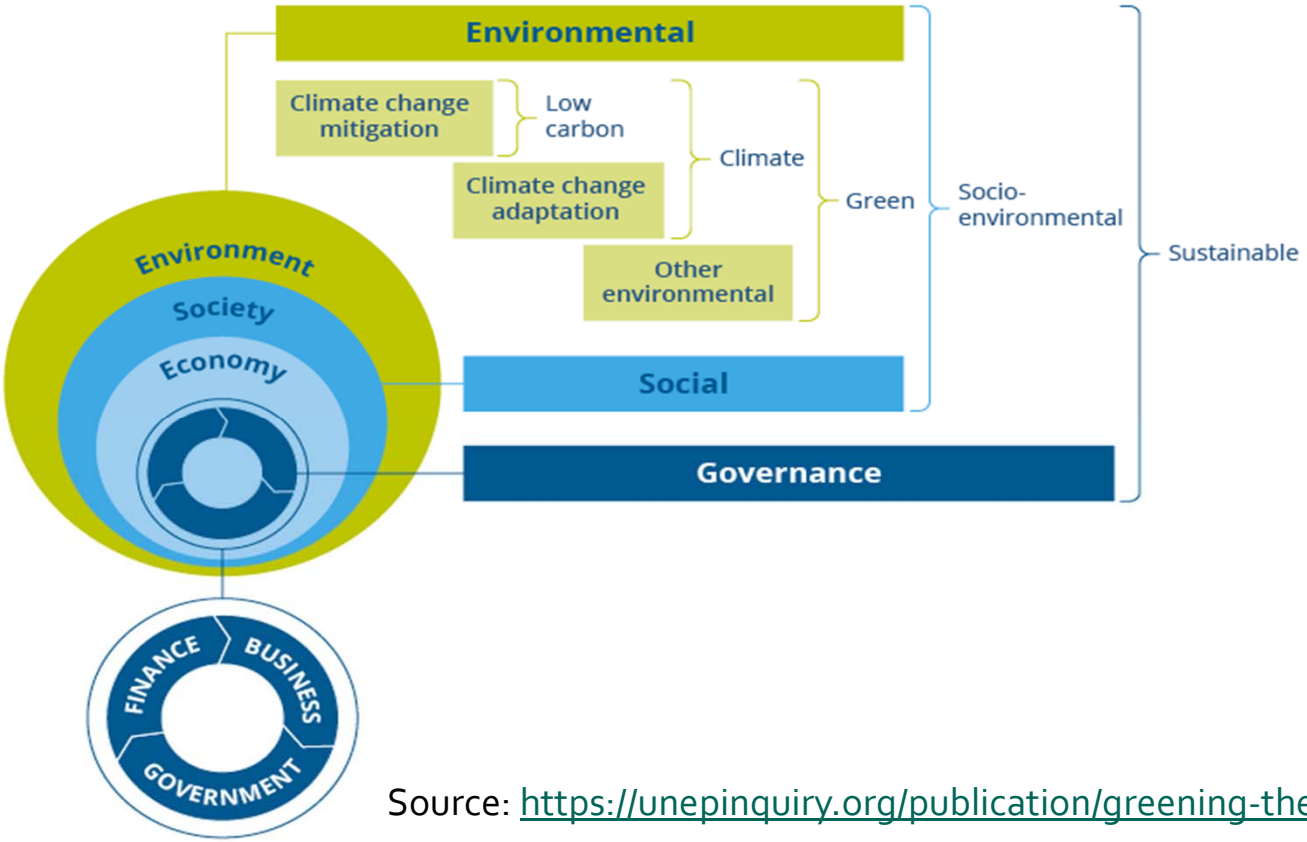
- In **2010**, electricity from wind and solar was **less than 4%** of total and relied on subsidies.
- By **2019**, it accounted for **18%** of generating capacity worldwide after investment of US$2.4 trillion in projects over 10 years.
- **Cost fell dramatically** that, in many countries, cheapest source by 2020 is either solar or wind.

SUSTAINABLE FINANCE



- Exclusionary screening
- Positive best in class screening
- Norms based screening
- Stricter definitions
- **ESG integration**
- Thematic investing
- Impact investing or community investing
- Corporate engagement and shareholder action
- Selecting sustainable investment strategies

Source: https://unepinquiry.org/publication/greening-the-rules-of-the-game/

EXAMPLES OF MAKING RECOVERY RESILIENT

ENERGY

- **Green jobs** – Korea for example, proposes to invest $185 million in subsidies for home rooftop solar installation as part of its coronavirus recovery
- **Improve transmission** – in some countries up to 30% of power are lost in transmission. New smart grid infrastructure will allow effective and less wasteful flow of power
- **Invest in making hydrogen cheaper** – possible that with incentives, prices could fall to about $1 per kilogram by 2050

INDUSTRY

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- **Cleaner materials** - Incentives and contract stipulations—for example, California's Buy Clean Act introduced low-CO_2 standards for materials used in state construction—can help push greener options into the mainstream
- **Price climate risk in industry** - Locking in an accurate—high—cost of CO_2 across all countries and industries would further tip the scales toward green industries and create more jobs.
- **Speed up the Internet**

TRANSPORTATION

- **Promote EV** - Countries with strong auto industries can develop trade-in schemes
- **Build chargers** - Just like any other battery-powered device, EVs need chargers
- **Green airline bailouts** - could require airlines to zero out their carbon emissions as a condition of a bailout

LAND USE AND ECOSYSTEMS

- **Conserve irreplaceable carbon** - Just 15% of the world's forests remain intact, the result of soaring demand for commodities such as beef, soy, palm oil, and wood. That's led to mass clear-cutting—much of it illegal.
- **Manage water** - It generates energy, feeds agriculture, and keeps the citizenry alive. Water infrastructure create lots of jobs
- **Promote Eco tourism** – marine and coastal eco preservation and restoration for eco tourism

HOUSING

- **EE building retrofits** – lots of jobs generated
- **Make green construction cost less** - 11% of emissions from building materials, cement, steel, and glass.
- **Green rents** – energy vouchers or reducing rents from EE use

JOBS

- **Green jobs for RE** - Every $1 million spent on RE creates 7.5 jobs, compared with 2.7 jobs on fossil fuels
- **Education and new skills for workers** - close that skills gap by funding vocational education for those who've been put out of work

Jerry Velasquez – gvelasquez@gcfund.org


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