



Climate Action Network

Public Finance for 1.5°C and Zero-Carbon Development by 2050: Implications of 1.5°C and Zero-Carbon by 2050 Goals for Public Finance Institutions

**Position Paper
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Climate Action Network International (CAN) is the world's largest network of civil society organizations working together to promote government action to address the climate crisis, with more than 1100 members in over 120 countries. www.climatenetwork.org

Key Message and Recommendations

Under the Paris Agreement, 196 countries agreed to align financial flows with a pathway towards low-GHG, climate-resilient development. The UN Sustainable Development Goals (SDGs) of the 2030 Agenda aim for universal access to affordable, reliable, sustainable and modern energy and infrastructure by 2030. This CAN position paper outlines the role of public finance institutions (PFIs) such as Multilateral Development Banks (MDBs), other Development Finance Institutions (DFIs) and Export Credit Agencies (ECAs) in supporting countries in the zero-carbon, climate-resilient transition. The paper urges that:

- Public finance must be transformational, catalytic, inclusive and responsive;
- PFIs must apply precautionary principles in assessing the climate and development impacts of their policies and projects avoiding harm to people, nature and economy;
- PFIs must provide policy, technical and financial support to help countries transform their energy sectors to sustainable, efficient systems that prioritise energy access;
- PFIs must cease by 2020 direct, indirect, ancillary infrastructure and policy support for upstream and downstream fossil fuels, GHG-intensive projects, nuclear, large bioenergy and hydropower when more cost-effective and less damaging alternatives exist;
- All PFI investments must meet strict environmental and social development criteria and be assessed through a pro-poor, inclusive, climate-resilient and gender-responsive lens;
- All PFIs, beginning with OECD countries in 2017, should report annually on their progress in scaling back support for fossil fuel-related transactions.

This paper identifies a number of opportunities for PFIs:

- MDB country strategy revision processes provide an opportunity to integrate Nationally Determined Contributions (NDCs) and long-term strategies (LTS) for zero-carbon development under the Paris Agreement;
- Policy reforms lending can be strategically influential to usher in urgently-required energy and infrastructure sector policy reforms;
- Strengthening oversight over their financial intermediaries' compliance with environmental and social frameworks, as well as gender and energy policy provisions would significantly reduce impacts on ecosystems and society by PFIs;
- The results framework for PFI energy investments could incorporate outcome indicators for alignment with the 1.5°C goal and the 2030 Agenda SDGs;
- All PFIs should initiate reports to present pathways for their operations to contribute to sustainable energy and development commitments of their stakeholder governments.

CAN calls on all PFIs to produce pathways to 1.5°C and Agenda 2030 for their respective operations by 2020 based on a synthesis of scientific advice and an assessment of social and economic development needs.

1. Context

The last three years have been the warmest on record, with significant impacts on vulnerable people and the planet. The poorest, most vulnerable people on this planet, including women, children, farmers and indigenous peoples in developing countries, are experiencing disproportionate climate impacts caused by unsustainable and GHG-intensive energy, infrastructure and industrial development in other parts of the world. These same communities also have the largest unmet development and energy needs, with women making up the majority of those living in energy poverty.

The cumulative greenhouse gas emissions budget for the global average temperature to stay “well below 2°C” and 1.5°C is highly limited, requiring a rapid peak and decline towards net-zero GHG emissions and full decarbonisation of the energy sector by 2050 at the latest¹. This reality implies strong limits on all existing and planned fossil fuel projects².

Based on current trends, universal access to electricity will not be achieved until 2080 and to clean cooking until 2150³. Achieving these goals by 2030 or earlier will require significant reform, innovation and increase in finance and technical support. A large portion of those without energy access live in rural areas that are often difficult, costly and time-consuming to reach with the conventional electricity grid, while the decentralised, renewable energy clusters as well as safe, clean cooking devices are equitable, sustainable, cost-effective and quicker.

¹ (ref IPCC 2014, Carbon Brief 2016)

² (ref OCI 2017, Carbon Tracker 2015)

³ Africa Progress Panel, 2015

Many countries, including members of the Climate Vulnerable Forum (CVF), have committed to a transition to 100% renewable energy as early as possible, and not later than 2050. However, many Least Developed Countries (LDCs) and Small Island Developing States (SIDS) will only become attractive destinations for private renewable energy investment if public finance acts as a powerful, reliable signal to the private sector holding the trillions and reduces risk for pioneer private investors.

The 'Companion Document' with this position paper presents additional context, data and reasoning on 100% shift of public finance from fossil fuel and nuclear projects to modern, sustainable, renewable sources and energy efficiency.

2. Priorities for Public Finance Institutions in Energy and Infrastructure Financing

CAN identifies the following four priorities for all PFIs to shift and expand their finance, technical support and policy advisory service towards:

1. Sustainable renewable energy policy frameworks and technical assistance for technological and financial innovation;
2. Ambitious energy efficiency and conservation, including support for public transport and electric vehicles;
3. Efficient, affordable, reliable, sustainable and modern energy systems (on-, mini- and off-grid) as well as grid infrastructure, including storage;
4. Overcoming energy poverty in an inclusive manner that is responsive to marginalised groups and to gender.

PFIs should complement these priorities with information, communication, education and skill development/capacity-building for all developing countries with a priority for LDCs and SIDS. With limited public funds available, PFIs must promote and support only the most sustainable options and technologies to send the required signal to other sources of finance. Nuclear and fossil energy as well as business-as-usual infrastructure must not be eligible for PFI finance from 2020. The period from 2017-2020 must be used to facilitate phase out of existing fossil fuel investments along with just transition for the workforce.

The required alignment of financial flows with the 1.5°C goal and the 2030 Agenda means a holistic, integrated approach to development and a unique-still-complementary role for both public and private finance. PFIs have the additional duty to take market development, environmental and social goals into account,⁴ for the following reasons:

⁴ [Designing smart green finance incentive schemes/E3G](#)

1. Public finance is the only funding stream that represents governments' commitments to common international goals and obligations, and must be aligned accordingly, especially since certain projects will continue to rely on public finance⁵;
2. Though the public share of all energy finance will stay relatively small, it can catalyse significant shift of private capital that often follows the public sector into "risky" developing country contexts, investment sectors and technologies. PFIs have de-risking tools such as investment guarantees, that remain under-utilised, to mitigate real or perceived risks for private finance;
3. A failure to align investment with sustainable development creates negative externalities which can only be addressed at substantially extra cost to PFIs and national budgets.

3. Principles of Sustainable Public Finance to Energy and Infrastructure

CAN puts emphasis on the principle that public finance raised from taxpayer's money is supposed to:

1. Generate and contribute to:
 - Dignified, fair, low-risk livelihoods for the poor, particularly the most vulnerable and marginalised;
 - Overcoming energy poverty in electricity and cooking in an equitable, inclusive, minority- and gender-responsive way while maintaining, enhancing and diversifying energy services;
 - Decreased dependence on fossil fuel imports;
 - Lower costs for reliable domestic manufacturing of sustainable energy systems;
 - Use of best available technologies that favor component recycling and reuse including recognition of and support to traditional sustainable practices;
 - Policy coherence toward the long-term goals in Agenda 2030 and the Paris Agreement.
2. Significantly minimise and, at best, avoid:
 - Any GHG emissions based on life cycle analysis as well as decommissioning costs for larger devices such as power plants;
 - Any indoor air, outdoor air or water pollution, and any production of toxic or hazardous solid waste;
 - Excessive consumption of, heat loss from cooling and warming of freshwater bodies;
 - Any risks to food security and permanent land disfiguration;
 - Negative impacts on nature and wildlife, such as biodiversity loss or deforestation;
 - Negative impacts on people, especially the most vulnerable, including human rights violations, public health and safety risks, as well as perpetuation of inequality and discrimination;

⁵ [Unlocking Renewable Energy Investment: The Role of Risk Mitigation and Structured Finance/IRENA](#)

- Increased economic vulnerability, widening income disparities and political instability due to the “petro-state” form of development;
- Accelerating job insecurity through replacing employees with automation;
- Over-reliance on often inflexible, inefficient, expensive centralised generation and transmission systems that are unfit for cost-effective, quick-deployment distributed renewable energy resources in rural and remote areas;
- Travel and commuting time through integrated smart public transportation system.

While no single clean energy technology or programme meets all of these criteria, a clean energy investment approach will adhere much more closely to these principles than any of the incumbent fossil fuel or nuclear investment options.

4. Role of Public Finance Institutions in the 1.5°C and Sustainable Development Goals

4.1 Multilateral Development Banks (MDBs) and Development Finance Institutions

MDB Country Strategies and Investment Criteria

International commitments, such as the NDCs (conditional and unconditional) under the Paris Agreement and the 2030 Sustainable Development Agenda, must inform the national policies and financial frameworks as a floor of the ambition. Conditional NDCs which are contingent on financial, technical and technological support must be integrated as MDBs revise their client country strategies. Similarly, MDBs can provide technical assistance to integrate the SDGs into national policy and financial frameworks as well as project selection and investment criteria.

Since the current NDCs fall short of the 1.5°C goal, and the potential to do more is contingent to means of implementation, MDBs could support enhanced ambition and preparedness by providing/mobilizing the required finance. This support would open up greater opportunities for country strategy reviews to raise ambition of their international commitments for national benefits. The principles laid out in Section 3 of this paper should be used to inform the investment criteria and country strategies revision process.

DFI Financing Instruments and Policy Reforms Lending

DFIs use various financing instruments to support countries’ development finance needs. Development Policy Lending (also known as Development Policy Finance, or DPF) is a relatively small though highly influential instrument that can prompt urgently-required energy and infrastructure sector policy reforms across the developing world. The World Bank identifies DPF as the main incentive for countries to shift to low-carbon economies under its Climate Action Plan. Yet civil society reports⁶ have documented DPF support being extended to fossil fuel projects, including coal exports, forcible land acquisition and deforestation.

⁶ [World Bank Development Policy Finance Props Up Fossil Fuels and Exacerbates Climate Change/Bank Information Center](#)

To fulfill commitments such as the Five Principles of Mainstreaming Climate Action⁷, and support countries in implementing conditional and unconditional NDCs, phasing out fossil fuel subsidies and adequately pricing GHG emissions, the DFIs must retool their financing instruments such as DPF that still promote carbon-intensive energy and infrastructure. This powerful tool must be deployed consistently to support MDBs' role in de-risking sustainable, low-carbon development and increasing private investors' risk appetite.

DFI Investments in Financial Intermediaries

Financial Intermediaries⁸ (FIs) which channel DFI funds are increasingly being found to finance fossil fuel projects and destructive, large energy infrastructure. Crucially, these projects are kept outside the purview of DFIs' environmental and social frameworks and their climate and sustainable development commitments. Intermediaries must be brought under the umbrella of the DFI policy framework to ensure transparency in the way funds are used and avoid direct, indirect, leverage, ancillary or risk coverage support for fossil fuels and unsustainable infrastructure. MDBs and other DFIs must strengthen their oversight of FIs, rather than relying primarily on their self-reporting with little enforcement.

DFI Energy and Infrastructure Policies/Strategies

Claiming an “all of the above” and “technology-neutral” approach, many MDBs' energy policies either include or fail to explicitly exclude support to fossil fuels, including coal, without a robust, clear pathway to a just transition to net-zero GHG development by 2050. The “technology-neutral” approach does not ensure level-playing field for cleanest and most sustainable technologies as in current scenario, they are still at a disadvantage, so conventional energy sources persist. These policies and technology/fuel choices inherently contradict their client country commitments to sustainable development enshrined in Paris Agreement and Agenda2030. Experience also shows that a few lukewarm and window-dressing restrictions on public finance for coal investments became a boomerang strategy, leading to financing for an expanded global pipeline for oil & gas projects instead of RE besides additional covert financing for coal through FIs.

MDBs must bring these activities under control to meet the decarbonisation and transparency goals of the Paris Agreement. Their policies need reform to exclude and/or make financing fossil fuel and other unsustainable projects economically unviable and a business risk.

Results Framework for Energy Policy

The results framework for MDB and other DFI energy spending should include alignment with the 1.5°C goal and the 2030 Agenda SDGs. It is not sufficient to focus solely on energy access, power plant efficiency and cost-effectiveness (without adequately addressing externalities), which could theoretically be achieved through fossil fuels (though at significant costs and with unjustified delay).

⁷ [Five Principles of Mainstreaming Climate Action in IFIs and FIs/European Investment Bank](#)

⁸ [Reckless Development: The IFC's Dodgy Deals in Southeast Asia/Inclusive Development International](#)

Rather than measuring energy access in installed megawatts, the results framework should focus on people reached with the right quality, affordability and reliability of energy services, serving a range of household, community, and productive activities, based on the multi-tier approach developed by the IEA and the World Bank.⁹

CAN Recommendations to MDBs and DFIs

CAN calls on MDBs and other DFIs to produce their “Pathway to 1.5°C and SDGs” guidance notes for their operations by the end of 2018 - 3 years after the Paris Agreement and Agenda2030 - bringing together scientific advice, social needs and economic development. This note would do well to outline each institution’s Portfolio Decarbonization Plan (PDP), to inform stakeholders of their existing emissions financing footprint, and targets to reduce that footprint in collaboration with client countries. The guidance notes will provide clarity on the policy decisions and project pipelines to be developed by MDBs, in cooperation with client countries, domestic stakeholders, civil society, investors and the private sector.

Since various MDBs and other DFIs are at different stages of alignment with the Paris targets and SDGs, CAN also recommends that the institutions carry out a regular ‘Climate and Sustainable Development Harmonisation’ exercise from 2017 through 2020 to raise the bar on standards, policies and impact of transformational projects.

4.2 Credit Guarantee Support from Export Credit Agencies (ECAs)

Government-supported Export Credit Agencies (ECA), which support domestic firms doing business abroad, represent the largest source of public loans, guarantees and insurance for private sector finance, mostly from private banks. ECAs typically support capital-intensive projects in highly competitive or risky markets, and officially that is not “climate finance”, nor is it “neutral”. It is widely acknowledged that many ECAs devote a substantial part of their portfolios to fossil fuel infrastructure, particularly oil and gas. In several developing countries, new fossil fuel investments - including offshore exploration, transport and port development - are much less financially feasible without ECAs, to the extent that their support is essentially keeping this sector afloat.

ECAs operate in a largely opaque environment, with only limited and scattered data available on the transactions they support. The lack of detail on these activities clearly contradicts the provisions for transparency of action and alignment of national policies and financial frameworks that are key pillars of the Paris Agreement and Agenda2030.

CAN Recommendations to ECAs in G20 Countries

All ECAs, beginning with OECD ECAs in 2017, should report annually on their efforts to scale back support for fossil fuel-related transactions. National parliaments must pass legislation or resolutions requiring disclosure of summary data on all ECA support for fossil fuels. Based on

⁹ [Unlocking climate finance for decentralised energy access/Hivos](#)

this disclosure, ECAs should introduce ambitious plans to phase out their support for fossil fuel transactions by 2020, on which greenfield fossil fuel extraction, transportation and processing infrastructure is particularly dependent. The G20 and OECD countries must take the lead in publishing sustainable public finance roadmaps by 2018 in order to be transparent about how their public finance institutions will honor the Paris Agreement and Agenda 2030 SDGs.

5. The Way Forward for Governments and Public Finance Institutions

Governments and PFIs must produce impartial, comprehensive, rigorous analysis of proposed projects addressing all externalities, within and beyond the national boundaries of any project's host country. This analysis must indicate how proposed energy and infrastructure projects are economically viable, who stands to benefit, and how they will be sustainable for all to allow a fair and transparent decision-making and consent from the people.

Note: This position paper is supported by more detailed analysis in a companion document.