Climate Action, Institutional Investors and Just Transition

Alicia Girón, Antonina Ivanova

Association for Evolutionary Economics (AFEE)

Annual Meeting, AFEE at ASSA; New Orleans, USA

January 6-8, 2023

World at the Crossroads: Finding institutionalist pathways to social, economic, and ecological co-existence

Panel *"Institutional Answers to the Uncertainties of Societal Transition"*

Climate Action, Institutional Investors, and Just Transition

- Is there real climate action after the Sharm el–Sheikh COP 27 and last Davos Meeting, assisted by institutional investors?
- Can the world make a successful and Just Transition to a net zero and resilient economy?
- The Green Keynesianism (GK) and the Just Transition (JT) discussion since the Paris Agreement gained importance.
- A variety of institutions affiliated with the banking and finance sectors are calling for actions, processes and instruments of finance and investment oriented towards climate change to be aligned with JT.
- The argument is that Global Transition policies will be crucial to making JT a reality as the scale and pace of finance has implications for both the impact and process of transitions (Robin et al., 2020).

Climate Action, Institutional Investors, and Just Transition

- **The Just Energy Transition Partnerships must be a "...tool to support developing countries accelerate their transition from coal and towards a renewable energy future" (UN, 20022).**
- **To reach this goal the Multilateral Development Banks and the International Financial Institutions will be the base to reach the Just Transition (JT) process based on more than "650 billions of special drawing rights or other low-interest, long-term debt instruments to finance clean-energy development across the world.**
- **All major issuers of debt should "normalize" natural disaster and pandemic clauses in debt instruments to help borrowing countries better absorb the shocks" (Williams, 2022) expressed Mottley, minister of Barbados at the UN General Assembly.**

Climate Action, Institutional Investors, and Just Transition

- **The importance of Green Keynesianism and Climate Finance**
- **Financialization through Environmental, Social and Governance Investing**
- **The Just Transition**
- **Financing for Climate Action: Post-Covid Challenges**
- **Institutional Investment for Green Development and Just Transition**
- **Final Remarks**

Climate Action, Institutional Investors, and Just Transition

- **The key question of this paper is if the financial sector has a crucial role in the fight against climate change? Yes/No**
- **If we introduce Minsky's Money Manager Capitalism and the importance of the Institutional Investors in a World where they Control the Investment, and the principal aim of the Central Banks is to control inflation. Will Just Transition Work?**
- **Financialization of environmental and climate investment: assets under management of funds with an ESG-related investment mandate have reached $35.3 trillion, or about 36 percent of global assets under management (GSIA, 2020).**

ANSWER:
Classic Keynesianism to Green Keynesianism

Financial Constraints/Closing Investment Gaps

- Current global financial flows are Insufficient
- Most finance targets emissions reductions rather than adaptation
- Climate impacts can slow down economic growth
    - Financial flows: **3-6x lower** than levels needed **by 2030** to limit warming to below 1.5°C or 2°C
    - There is **sufficient global capital** and liquidity to close investment gaps
    - Challenge of closing gaps is widest for developing countries

Financialization through Environmental, Social and Governance Investing

- The process of financialization and securitization through Institutional Investors, Investment, and Mutual Funds (the Parallel Banking System or Shadow Banking), has reached 41 trillion dollars today (D´Arista and Schlesinger, 1994).
- There are four selected innovative financial instruments for Climate Finance: Structured finance vehicles, Blended finance, Outcome-based sustainable debt instruments, "pay-for-success" private financing.
- Climate Change as Covid-19 (Hepburn et al, 2020) shows the need for a substantial change in the global financing strategy where institutional investors will have a fertile field for higher profits through various financial instruments to achieve Sustainable Development Goals (SDGs).

SDGs as a SD Ecosystem

Paris Agreement (COP 21)

UNIVERSALITY

SUPPORT

<2°C
(1.5°C)

AMBITION

ADAPTATION

DINAMISM
AND LONG
TERM VISION

MECHANISMS OF
COMPLIANCE AND
TRANSPARENCY

Sustainable Finance at the International Level

FSB -TCFD: Industry-led task force on climate-related financial disclosures (TCFD)

G20: Sustainable Finance Study Group

Banks and Central Banks: Sustainable Banking Network, Network for Greening the Financial System, Sustainable Insurance Forum

United Nations: Environmental Programme Financial Initiative

Cities: International Network of Financial centres

Numerous international initiatives have indorsed Green or Sustainable Finance on different levels.

European Commission

Climate Financing Instruments to Leverage Private Sector Investment

1. **Policy Incentives:**
   - Feed-in tariffs
   - Tradeable certificates
   - Tax incentives
   - Clean energy subsidies
2. **Risk Management:**
   - Guarantees
   - Insurance policies
   - Contract-based instruments
3. **Grants:**
   - Cash transfers
   - In-kind support
4. **Low-cost project debt:**
   - Concessional loans
5. **Capital Instruments at commercial terms:**
   - Project-level market rate debt
   - Project-level equity
   - Balance sheet financing

Address investor-specific needs

Align public and private interests

Enable scaled-up investments

WORLD BANK GROUP
Climate Change

What is ESG?

ESG addresses many topics and stakeholders.

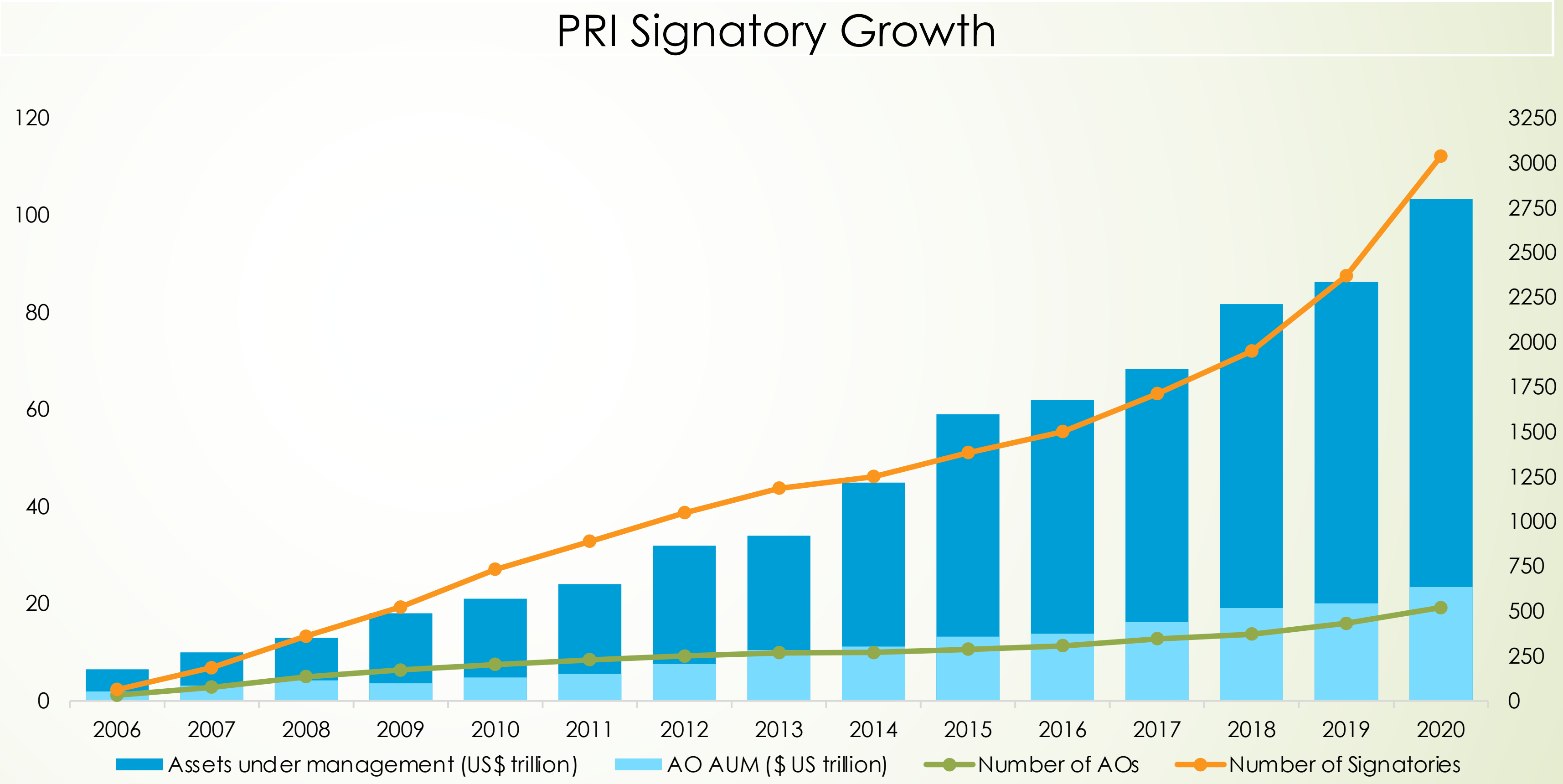
ESG represents the company's efforts to **systematically assess, manage, and monitor risks of material potential impact to the strategic and financial decisions of the company.**

The term ESG is often used as a synonym for sustainability, CSR, public relations, social investment, or environmental compliance. While some of these elements may factor into an ESG program, at the center of ESG is the ***management of risk and the preservation of shareholder value.***

Changing Attitudes of Investors Towards ESG

Drivers for Change:

- Transition of the debate on E&S issues from values-based argument to long-term value creation and risk assessment.
- Pressure on financial institutions to demonstrate sustainable business practices in the aftermath of the 2008 Financial Crisis and major industrial disasters.
- Increased momentum of ESG stewardship initiatives and proliferation of codes of best practices.



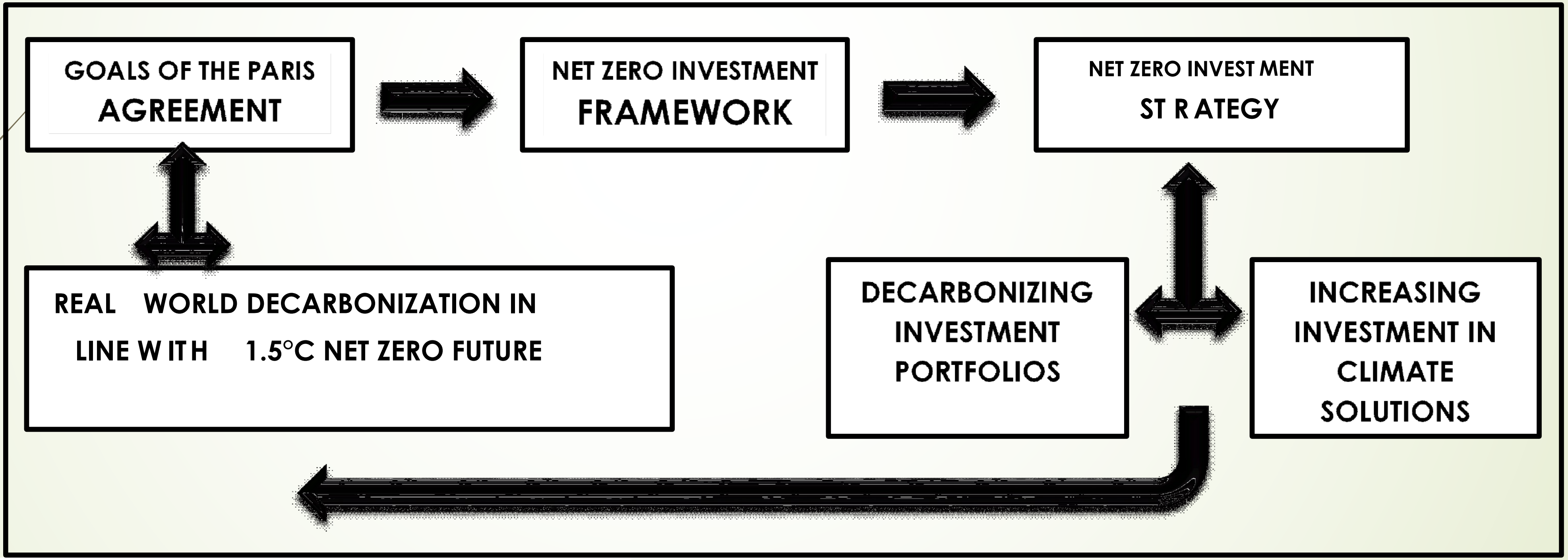
Sources: UN PRI

Just Transition Defined (leave no one behind)

- The concept of the Just Transition attempts to accommodate and address social concerns and possible inequities that may arise in a shift a sustainable economy.
- This means that environmental policy should not cause undue social or economic harm to workers and communities reliant on damaging activities.
- This is key for political feasibility – asking workers to disproportionately shoulder the costs of a society wide transition will engender opposition.
- The financialization of the 'Green Keynesian Economy' linked to technological change through the "Digital Economy" is fundamental in the process of Just Transition.

Paris Alignment by Institutional Investors(PAII)

Participation from over **110 IIGCC members** representing more than **$33 trillion** of AUM



Source: Adapted by authors from IIGCC (2022)

Our future?

- **Reduced climate risks – adaptation**
- **Reduced greenhouse gas emissions – mitigation**
- **Enhanced biodiversity**
- **Achieved the Sustainable Development Goals**

This is Climate Resilient Development.

The financial sector has a crucial role in the fight against climate change.

Financialization of environmental and climate investment

We must tackle the COVID and climate crises together

- The dangers involved in ***climate change*** are still bigger than the crisis we are experiencing from COVID. "There is no vaccine for climate change".
- Recognise the ***centrality of investment***. Investment is at center stage right through from rescue to recovery to transformational growth / net zero.
- Investment can tackle ***simultaneously***: health/ education; unemployment/ growth; inequality/ social cohesion; climate/ biodiversity.
- The realization of investment requires ***sound policy*** and the right kind of ***finance*** (innovation), on the right scale at the right time.
- ***The financialization of the 'Green and Bio-Circular Economy'*** linked to technological change through the "Digital Economy" is fundamental in the process of Just Transition.
- "Wins" to collaboration: ***Green Keynesian recovery***; expectations and growth; cost/technology; pollution/climate/biodiversity.

Failing to take strong action on investment would give us a deeply dangerous world.
The Climate Decade: key moment in world history.