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How can the EU lead on Climate Finance and Sustainable Development?[1]

The G7 summit on the 8th of June has set the stage to change global financial structures and align them with climate goals. The summit agreed to phase out fossil fuels and reaffirmed the $100bn commitment on climate finance. The rest of 2015 is now packed with opportunities to design the climate and development agendas that will achieve this. With the Finance for Development (FfD) conference in Addis Ababa, the summit to adopt the Sustainable Development Goals (SDGs) in New York and COP21 in Paris, 2015 is a crucial year to agree sustainable development pathways with a redefined partnership between developing and developed countries to effectively move towards this transition.

Clear investment signals are needed to shift financial flows

The Paris agreement is central to deliver signals to the investment community that countries are embarking on decarbonisation. Momentum is building in the private sector and the emerging message is that the private sector is ready and willing to start mobilising its own resources. However, the critical challenge is reaching the tipping point where green investments become business as usual. The Business & Climate Summit in May in Paris called on policymakers to leverage public funds and private sector finance and to de-risk investment towards low carbon assets, especially in developing countries.

There is a challenge in ensuring financial systems and institutions can deliver the change fast enough. There is also a need to come to clear criteria and safeguards for the Green Climate Fund (GCF). In the discussions towards COP21 in Paris, developing countries are looking for clarity on public finance, both for mitigation and adaptation actions. This is an opportunity for the EU to capitalise on its experiences delivering climate finance in partnerships with developing countries and lead a dialogue on the financial package to be agreed in Paris. It will be important to ensure there is a comprehensive finance package with mobilisation goals to fulfil the current commitment to mobilise $100 billion by 2020 from public and private sources and define how support will be provided post-2020.

Beyond the accounting exercise of this analysis, it will be critical that the $100 billion is delivered in a way that sends clear signals to the real economy to deliver finance flows at the pace and scale required to tackle climate change.

1 The policy brief is based on a roundtable discussion that was held under Chatham House Rule on 13 May 2015 as part of the Brussels Dialogue Series "From Warsaw to Paris – The 2015 Momentum" on EU ambition in the international climate regime. The opinions expressed do not necessarily represent the opinions of the Heinrich-Böll-Stiftung and E3G.

Public finance interventions will remain critical in the post-2020 regime. Increasing budget for climate mitigation and adaptation activities at home and abroad will be needed to have an orderly transition towards low carbon and climate resilient societies. As we accelerate phasing out fossil fuels, governments will need to ensure all public investments are climate compatible. A clear signal from governments and multilateral institutions to align public investments, catalyse wider investments by taking on more risk and ensuring they do no harm is a crucial step. This discussion needs to take place in a number of key venues in 2015, including not only Paris, Addis Ababa and New York, but also carried forward by the G20.

How can the EU boost the low carbon resilient transformation in Europe and beyond?

The good news story is that EU climate finance is already delivering change. It has created important incentives within development finance institutions to support the response to climate change and it is supporting developing countries to start implementing their emerging climate change strategies. The EU's role on finance has been and should remain important and constructive. The EU has championed greater transparency and helped galvanise common approaches; it has also explored ways to work in partnership with countries who are prepared to be proactive, helping to strengthen their capacity to understand, shape and respond to opportunities to invest in solutions.

At home, the EU can advance this agenda by achieving three key elements through Juncker's investment package:

1. Meeting and exceeding the 2020 climate and energy targets;
2. Introducing climate variables within the financial sector risk assessments; and
3. Catalysing at least €315bn into EU economy through the European Fund for Strategic Investments to move the EU towards low carbon and climate resilient growth.

Major players in the global economy are also progressing into this direction. China for example is moving very aggressively with regulatory frameworks for the financial sector and promoting public-private partnerships for future infrastructure investments. Middle income countries play an increasingly important role and south-south flows are becoming ever greater. The G20 can be a place to have further conversations on economic transformations and infrastructure investments. The new financial institutions such as the Asian Infrastructure Investment Bank and the BRICS Bank offer a tangible opportunity to design a bank from scratch that works for a low carbon and climate resilient world.

Making use of the trillion dollar opportunity

The EU has a real opportunity to lead on financial reform both internally and internationally. Internally, the capital markets union, Energy Union and Juncker investment plan are opportunities to transform the EU economy and integrate climate risk to investments. Internationally, the EU can shape 2015 outcomes under the EU's vision of multilateralism, transparency and cooperation with a focus on quality and predictability of financial flows. In this regard, silo thinking should be overcome and global discussions should be connected with bilateral action such as the EU's agreements with China. There is appetite in many countries, including emerging economies, for transforming the economies and having a new climate finance agenda. With rising political commitment to deliver reform, there has never been a better time than now to really accelerate the low carbon transition and integrate the climate and sustainable development agendas.

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