Briefing

Climate change

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Policy pointers

Private sector contributions to reducing greenhouse gas emissions are significant. Now, willingness to contribute to climate resilience needs to be substantiated.

Scotland's Climate Justice Fund can present enterprise with different ways to contribute. An innovative option is 'second round support' contributions to 'proven' initiatives identified through a first round of government funding.

Such an approach offers good assurances of social return on investment, allows contributions to be results-based, and could 'snowball' if first round government funding is maintained.

Securing sustained contributions from the private sector into a climate justice fund could help achieve the political culture shifts necessary to tackle climate change impacts.

How can the private sector contribute to delivering climate justice?

Climate justice seeks to address the unjust distribution of climate change costs (in other words the externalised costs of industrial development) by putting a human-rights based approach at the centre of international development initiatives. Globally, private sector investments have made huge contributions to mitigating greenhouse gas emissions, but are largely failing to address the costs imposed on developing countries of adapting to climate change and achieving resilience. In Scotland, business people want to identify and evaluate a range of options for funds that could be put into climate justice programmes. The private sector will need scalable mechanisms with low transaction costs if their contributions are to achieve significant outcomes. Developments in Scotland's Climate Justice Fund could present Scottish enterprise with a range of ways to make such contributions.

Economic development is spread unevenly across the world. One consequence is that those people and economies that have contributed least to greenhouse gas emissions are likely to be the worst affected by climate change. Scottish First Minister Salmond has noted this injustice, saying "Those who have benefited and still benefit from emissions in the form of ongoing economic development and increased wealth … have an ethical obligation to share benefits with those who are today suffering from the effects of these emissions."[1]

Across the developing world, the sustainability of economic development gains will be poor unless adequate resources are effectively channelled into mitigating greenhouse gas emissions and investing in climate change adaptation. The Scottish Government's Climate Justice Fund (established following an election pledge in 2011) seeks to address the unjust distribution of climate change costs by putting human rights at the centre of its support to international development. The fund is an initial attempt to recognise the rights and needs of the climate-vulnerable poor, and promote participation in decision making on climate mitigation and adaptation by vulnerable groups, including women and youth. It does so by distributing resources through Scottish agencies to initiatives that address climate change effects where development deficits impair adaptation responses.

Private sector contributions to delivering climate justice need to be explored, and their scope substantiated. This briefing looks at why the private sector might contribute to climate justice programmes, what contributions could be made and how they could be channelled, including through Scotland's Climate Justice Fund.

The private sector view

Returns on investments made by the private sector will be affected by climate change, and climate risks are increasingly influencing investment decisions. The Institutional Investors Group on Climate Change (IIGCC)[2] has found that "53 per cent of asset managers … [have] decided to divest or not invest in listed equities based on climate change concerns, and a majority of asset owners (69 per cent) said that climate change integration influenced their fund manager decisions in 2012. This was a marked increase on the 43 per cent who declared the same last year."[3]

A sound basis for delivering climate justice is necessary for public and private sectors to adopt the concept

IIGCC calls for "changes to market signals by encouraging the adoption of strong and credible public policy solutions that ensure an orderly and efficient move to a low carbon economy, but also measures for adaptation, enabled by policy frameworks that support investment in adaptation and climate resilience."

The private sector sees an important role for itself in delivering a low carbon future. Peter Darbee, Chairman of the Board, CEO and President of PG&E Corporation, states that: "Our economic future depends upon establishing a low-carbon energy system. We need to dramatically increase our investments in energy efficiency, renewable energy, smart grid technologies, and other innovations. These investments will ensure that our future is not only sustainable, but prosperous."

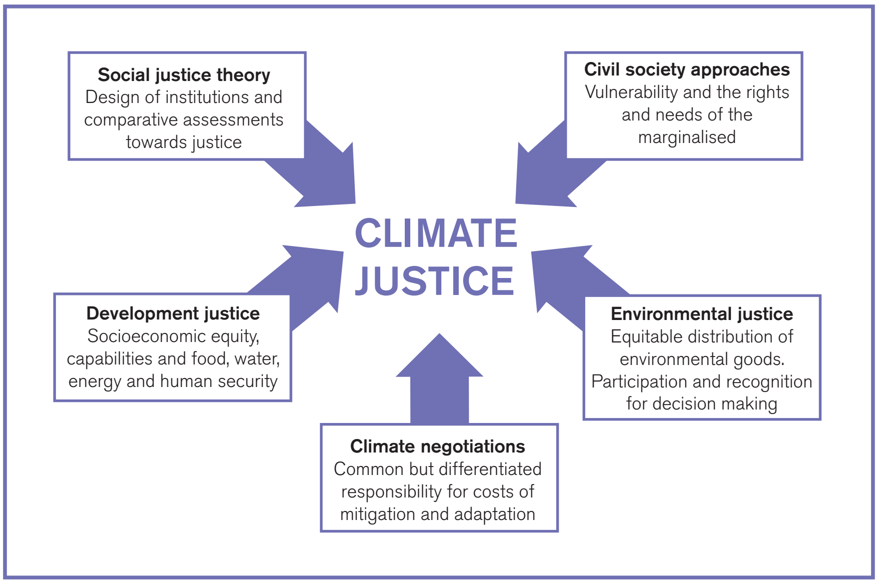
Mindy S. Lubber, President of Ceres (founded by investors to make sustainable strategies and practices a mainstream part of decision making by companies, investors and other key economic players) goes further, saying: "Business is astute at solving problems, and many of the biggest global challenges we face are social and environmental. As a result, it is business that must lead the way by turning these challenges into opportunities. This means fully integrating sustainability considerations into governance, performance, accountability, R&D and overall business strategy. Tracking results, analysing data and implementing actions to increase efficiency and competitiveness are cornerstones for success. The bottom line: sustainability must be the foundation of the 21st century corporation."

Certainly, in global terms, the private sector is making significant investments in mitigating climate change. In 2010–11 annual global climate finance flows are estimated to have been US$343–385 billion, and of this US$217–243 billion derived from the private sector, while the public sector contributed US$16–23 billion. But less than five per cent of flows went to climate adaptation.[4]

This simplistic adaptation/mitigation dichotomy is unhelpful. Most private sector investments are in mitigation, through clean and renewable energy, but these can also help make climate-vulnerable communities significantly more resilient. In addition, climate adaptation investments are viewed as being 'incremental' and mitigation investments as 'capital'. Business models for adaptation investments need to identify how to leverage capital investments. Similarly, the demarcation between 'public good' creation (largely adaptation) and bankable investments (mitigation) is hindering better recognition for the social returns from private sector investments in climate change responses.

In recognition of this, Scotland's 2020 Climate Group has set up a working group to identify and evaluate how Scottish private sector funds might be put into climate justice programmes.

Figure 1. The basis of climate justice



A solid basis for climate justice

A sound and workable basis for delivering climate justice is necessary for public and private sectors to adopt and apply the concept. And to be attractive to the private sector, any mechanism will need to have low transaction costs and be scalable so it can achieve results.

The concept of climate justice is based upon political theories of social, environmental and developmental justice (see Figure 1). Social justice emphasises liberty and equality and achieving justice through the fair distribution of goods and services within a society.[5] Analysis of the environmental justice movement suggests three operational components: equity in the distribution of environmental risk, recognition of people's diverse needs and their experiences of

Table 1. Potential routes and mechanisms for private sector contributions to a climate justice fund

Route	Mechanisms	Comments on implementation
Upfront contributions into pooled fund: public sector funding is provided to match private sector contributions, or vice versa.	Scottish Government matches private sector contributions 1:1 (possible to have private sector matching at a different ratio e.g. 1:2, 1:0.5)	▪ Basic model and simplest to explain. ▪ Public sector sets the bar. ▪ Relies on, and is limited by, private sector willingness to contribute. ▪ Little incentive for repeat contributions.
Scottish Government identifies a portfolio of initiatives that merit support and calls for private sector **contributions to help support the portfolio, or components** of the portfolio.	The private sector bids support for a portfolio of initiatives identified by the Scottish Government.	▪ Simple model and easy to explain. ▪ Private sector responds from CSR-type motives. ▪ Relies on private sector willingness to contribute and is limited by this. ▪ Incentive for repeat contributions, although fatigue possible. ▪ Higher transaction cost for Scottish Government but management could be outsourced. ▪ The work of setting out individual initiatives' merits falls on the proposers. ▪ Results-based payments can be introduced.
Scottish Government identifies a portfolio of initiatives to support in a first round and then calls for private sector **contributions to support those initiatives that prove effective** in second and subsequent rounds.	Scottish Government gives first-round support to a selection of initiatives and the private sector then bid to provide second round support to those proven to be effective.	▪ An innovative model that could engage forward-looking entrepreneurs. ▪ Results-based payments dependent upon demonstration of impact by proposers. ▪ Possible snowballing effect as Scottish Government maintains total budget for grants to first round initiatives, second and subsequent round support comes from private sector and the scheme grows iteratively expanding to take up private sector willingness to buy in. ▪ Private sector responds from CSR-type motives. ▪ Private sector has greater guarantees of social returns on investments. ▪ Relies on private sector willingness to contribute and is limited by this. ▪ Incentive for repeat contributions. ▪ Higher transaction cost for Scottish Government but management could be outsourced. ▪ Work of setting out the merits of the individual initiatives falls upon the proposers.

environmental impacts, and participation in the political processes that create and manage environmental policy.[6] Meanwhile, developmental justice focuses on what individuals value rather than simply need. Combining aspects of these three antecedents provides a workable understanding of how, and to what extent, climate justice is achieved.

The Green Climate Fund and global climate negotiations

Equity features large, but only implicitly, in the global climate change negotiations — that is, as a criteria in deciding the share and manner of reducing greenhouse gas emissions. Whereas, notions of justice and injustice are behind the arguments for help with the burden of climate change impacts and costs caused by the major emitters and borne by poor countries.

Negotiations are progressing on the design of a Green Climate Fund (GCF) under the UNFCCC. At their second meeting in October 2012, the GCF Board began work on developing a 'Business Model Framework'. The framework is to ensure the GCF is 'fit for purpose' and able to achieve the goals and objectives of the GCF's Governing Instrument. The agreed criteria are that the fund should be: equitable, transparent, accountable, efficient/effective, country-driven, scalable and flexible, and have simplified/improved access, including direct access for developing countries, as well as effective stakeholder involvement.

Possible guidelines for ensuring these criteria become part of the GCF's design and implementation have been put forward[8]:

- The requirement to be both equitable and efficient/effective should apply to every aspect of the framework. Whenever one is taken into consideration, so should be the other.
- The GCF's decision-making process must be framed by the criteria of transparency, accountability, and having effective stakeholder engagement/involvement.
- Being scalable and flexible should apply generally to both requests for finance, and its supply.
- The fund design should take account of developing countries' requirements to determine their own needs for finance, and to have simplified and easy access to funds.

Involving the private sector

Zaheer Fakir, the South African co-chair of the GCF board, sees a mix of private and public funding as the model for future climate finance. Speaking at a recent GCF board meeting he said "… the decisions that we have taken will help ensure that both governments and the private sector are playing a role in combatting climate change." An issue for private sector involvement of course is the proportions of costs, risks and benefits borne by public and private sector entities.

Although corporate social responsibility motives are relevant to private sector contributions to climate justice delivery, other motives are possible. Enterprises north and south can share learning on responding to climate change challenges, business opportunities can be derived from helping to deliver resilience, and workforce motivation can be enhanced by engagement. Taking Scotland's Government's Climate Justice Fund as an example, private sector willingness to contribute will first need to be assessed, and then ways to contribute devised.

One way to contribute would be to provide top-up funds (as suggested by the Scotland 2020 Climate Group), but others might include in-kind activities such as skills and knowledge exchange with counterparts in developing countries, providing technical advice on climate resilience investments, providing re-insurance support, and underwriting loans to developing country investors. Instruments that could be introduced to encourage contributions to the incremental costs of climate responses include: climate financial risk management, carbon offset finance, grants, and low-cost debt. Contributions towards the capital costs of climate responses could include: project-level market value debt, project level equity, and off-balance sheet financing.

Another important aspect to consider is the possibility of building on private sector interest and capacity so as to maximise the climate resilience co-benefits from investments in greenhouse gas mitigation projects. For example, it is well known that providing sustainable energy and/or clean water to people makes them better able to become resilient to climate variability.

Scotland's Climate Justice Fund: a realistic test bed

Securing private sector support within Scotland's Climate Justice Fund offers a unique opportunity that could set a precedent for other funds, and at this stage in the fund's development conditions look favourable for piloting innovative approaches given that:

- Scotland's Climate Justice Fund is of modest scale and at an early stage of channelling developed country finance to developing countries' adaptation and resilience initiatives. It can credibly be seen as an exploratory mechanism through which to identify options and provide 'proof of concept' findings — and thereby leverage influence.
- There are early signs of Scottish private sector willingness to contribute — 'first place' opportunities are available to be exploited and precedents can be set.
- Private sector involvement can be implemented irrespective of Scottish independence status.

Table 1 sets out different ways to leverage private sector contributions to a climate justice fund.

An innovative way to leverage private sector contributions would be for the Scottish Government (or partners) to identify a portfolio of climate resilience initiatives in prioritised countries and support these through a first round of funding. Then, once the results of the first round are known, and proven initiatives are identified, private sector contributions could be invited to support these initiatives in second and subsequent rounds. This model could engage more forward looking entrepreneurs and those wanting more assurance of initiatives' feasibility. Taking this route could also provide a way to ensure results-based payments follow demonstrable impact.

And the approach could 'snowball' if the Scottish Government were to maintain funding for first round grants, with second and subsequent round support coming from private sector sources. The scheme could grow iteratively, expanding to take up private sector willingness to contribute.

This route also provides greater private sector guarantees of social returns on investments as the initiatives supported would already have been proven effective in the first round. And it offers incentives for repeat contributions, as evidence of impact increases. It does represent higher transaction costs for the Scottish Government but management of the scheme could be outsourced. The transaction cost of setting out the merits of the individual initiatives falls upon the proposers.

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Knowledge Products

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Notes

[1] Mr Salmond Speech to Communist Party Central School, China on Adam Smith and Climate Justice, 6 December 2011. See: www.scotland.gov.uk/News/Speeches/china-cpconference / [2] www.iigcc.org/ / [3] www.iigcc.org/__data/assets/pdf_file/0003/15465/Global-investor-survey-press-release-2013.pdf / [4] Buchner, B., Falconer, A., Hervé-Mignucci, M. and Trabacchi, C. 2012. *The Landscape of Climate Finance 2012*. The Climate Policy Initiative. / [5] See for example Rawls, J. (ed. Kelly, E.). 2001. *Justice as Fairness: A restatement.* Havard University Press, Cambridge, Massachusetts. / [6] Schlosberg, D. 2007. *Defining Environmental Justice.* OUP, Oxford. / [7] John Vidal's piece in the Guardian on 3 July 2013 gives a flavour of the state of GCF negotiations. www.guardian.co.uk/environment/2013/jul/03/climate-aid-climate-change-fund / [8] Mueller, B. 2013. *A Delhi Vision for the Green Climate Fund Business Model Framework: Some thoughts on access and disbursement.* www.oxfordenergy.org/2013/02/a-delhi-vision-for-the-green-climate-fund-business-model-framework-some-thoughts-on-access-and-disbursement/