

The short-term overall benefits of a multilateral cooperative approach to climate finance

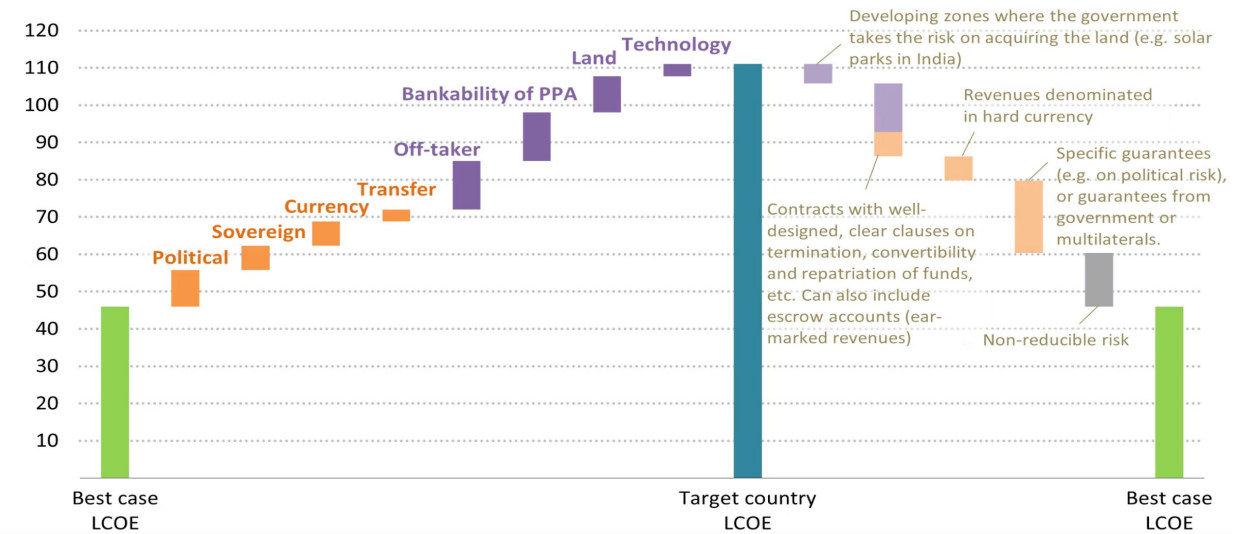
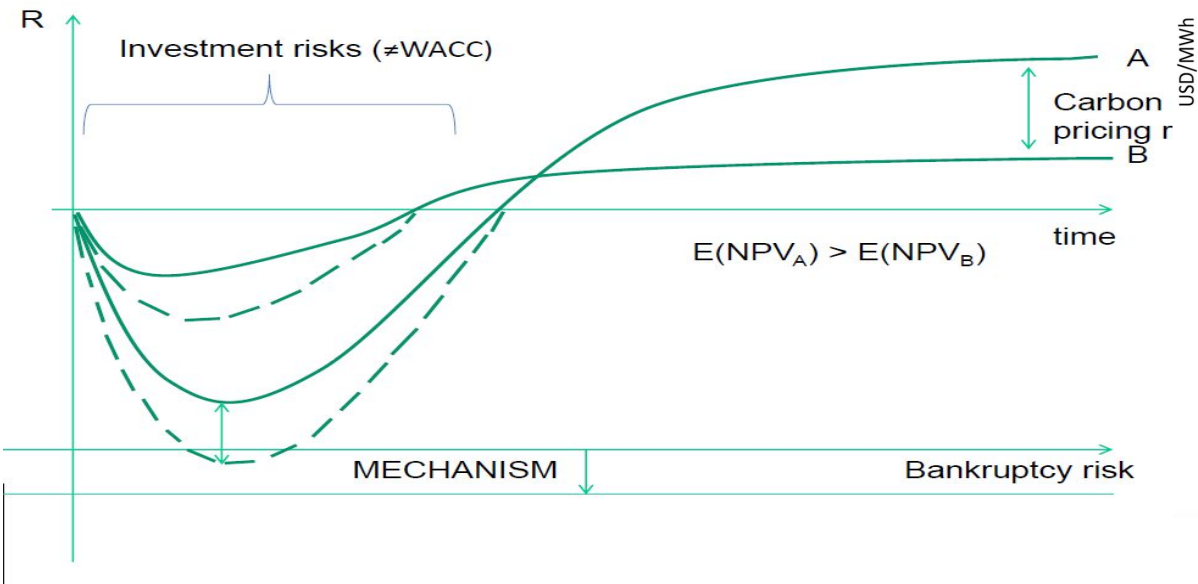
Findings of an improved dialogue between the engineering, financial and macroeconomic analysis

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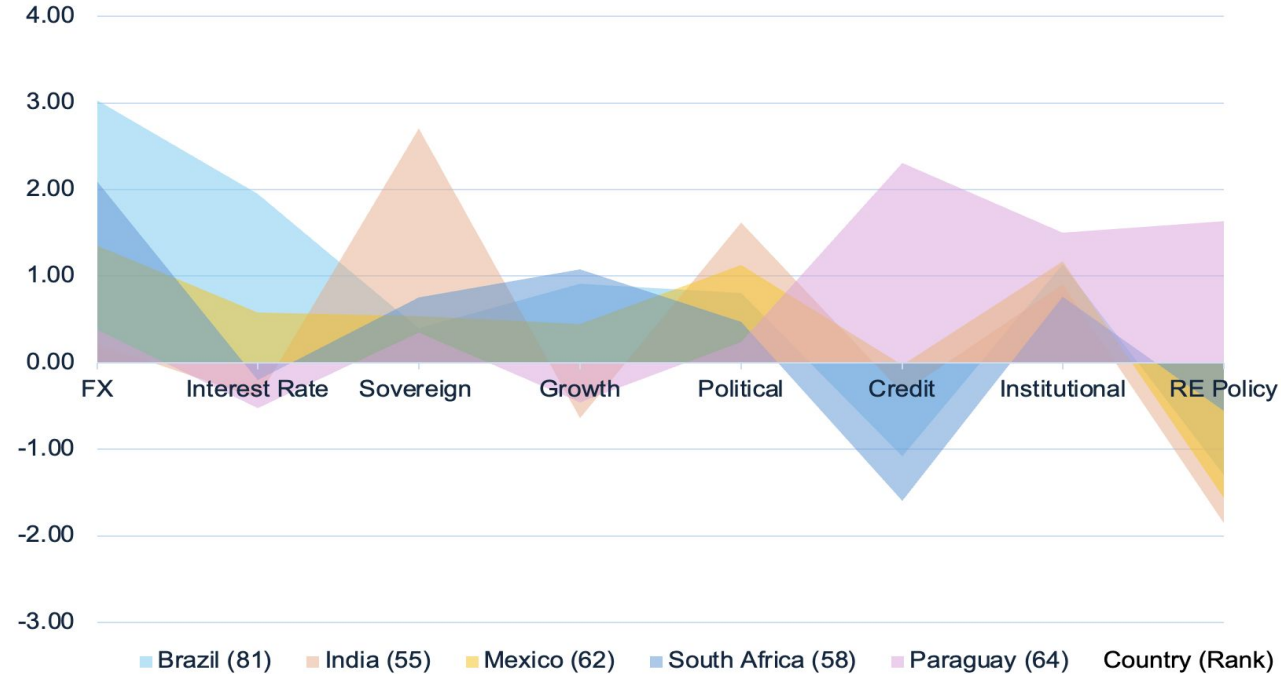
A systemic problem: the 'Fault lines' of the world economy

- Countries 'forced to export', competition through wages or access to capital markets or ...
- 'business environment' under a '*shareholder value business regime*' (Roe, 1994) and *risk-adverse financial players tending to direct more savings towards liquid financial products and real estate*.
- gap between the '*propensity to save*' and the '*propensity to invest*' and 'secular stagnation' (L. H. Summers, Krugman, 2014; Blanchard, 2019;
- Rents 'real estates, land, innovation ... in certain sectors) are a driving factor of the investment gaps (**the infrastructure paradox**)
- Financial cycles, business cycles and *threats to stability of a contemporary financial system fragilized by the absence mechanism that automatically returns capital markets to equilibrium* (Borio, 2014)
- A « *currency cold war* » with the dollar as the main Reserve Currency

Investment Risks in the 'real economy': well-known but often overlooked features



The up-front risks that deter low carbon initiatives



What advantage of public guarantees?

A ***public private risk-sharing mechanism*** with a higher leverage of public support than subsidies and grant:

- payment of public money only in case of projects' failure
- all types of risks taken up-front in a comprehensive way
- attract financial intermediaries (bonds, equity or loans) by lowering their risks of loss;
- incite financiers to deliver capital at lower interest rates, which unlocks the number of viable projects deterred by risks and capital cost
- contributes to the balance of public budgets if fiscal revenues of successful projects are higher than the payments for default

They constitute a ***'self-responsibilisation'*** instruments both the governments and the private sector

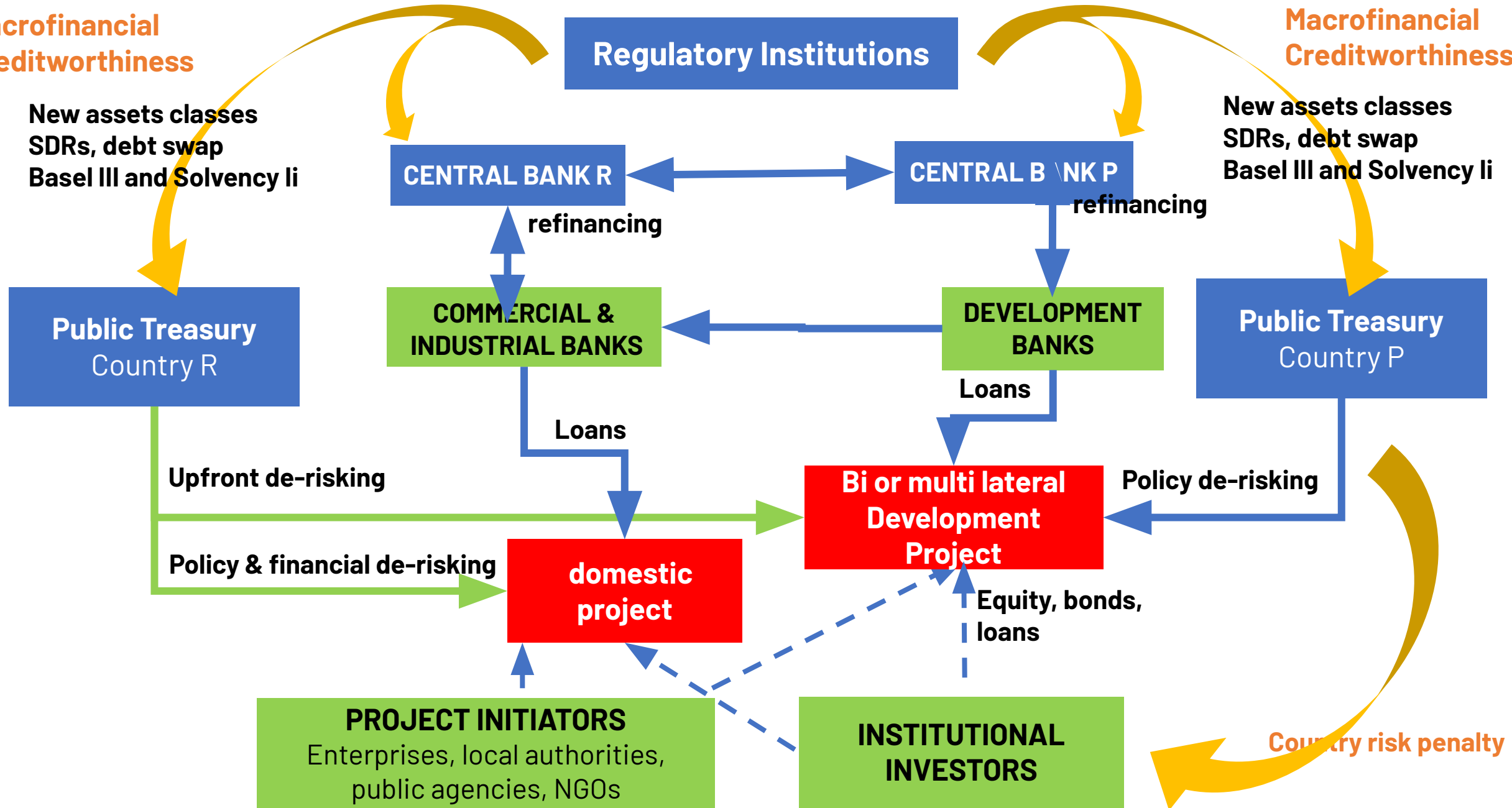
Why a multisoovereign guarantee mechanism?

- ***Because the challenge is to redirect towards climate investments in the South the savings of 56 million millionaires who hold a bit less than 50% of global financial wealth***
- ***Because it matters to remove the ‘technical obstacles’ to a larger use of public guarantees*** (counterindemnities and collaterals, ‘origination costs’ and management)
 - secure a ***high level of political credibility***:
 - ***‘Ulysses and the Sirens’ effect*** (tying oneself to the mast) of joint commitments
 - minimizing of the risks of ***arbitrary selection of projects*** and the suspicion of ‘green colonialism’
 - facilitating the emergence of fully ***recognized assets that respond the DCs request of ‘non debt’ instruments*** and help respecting the Basel III rules
- ***Because one needs a platform for coordinating decentralized initiatives adapted to local situations, help climate and development*** finance institutions working synergistically, and stimulate the emergence of new guarantors (private sector, Regional Banks)

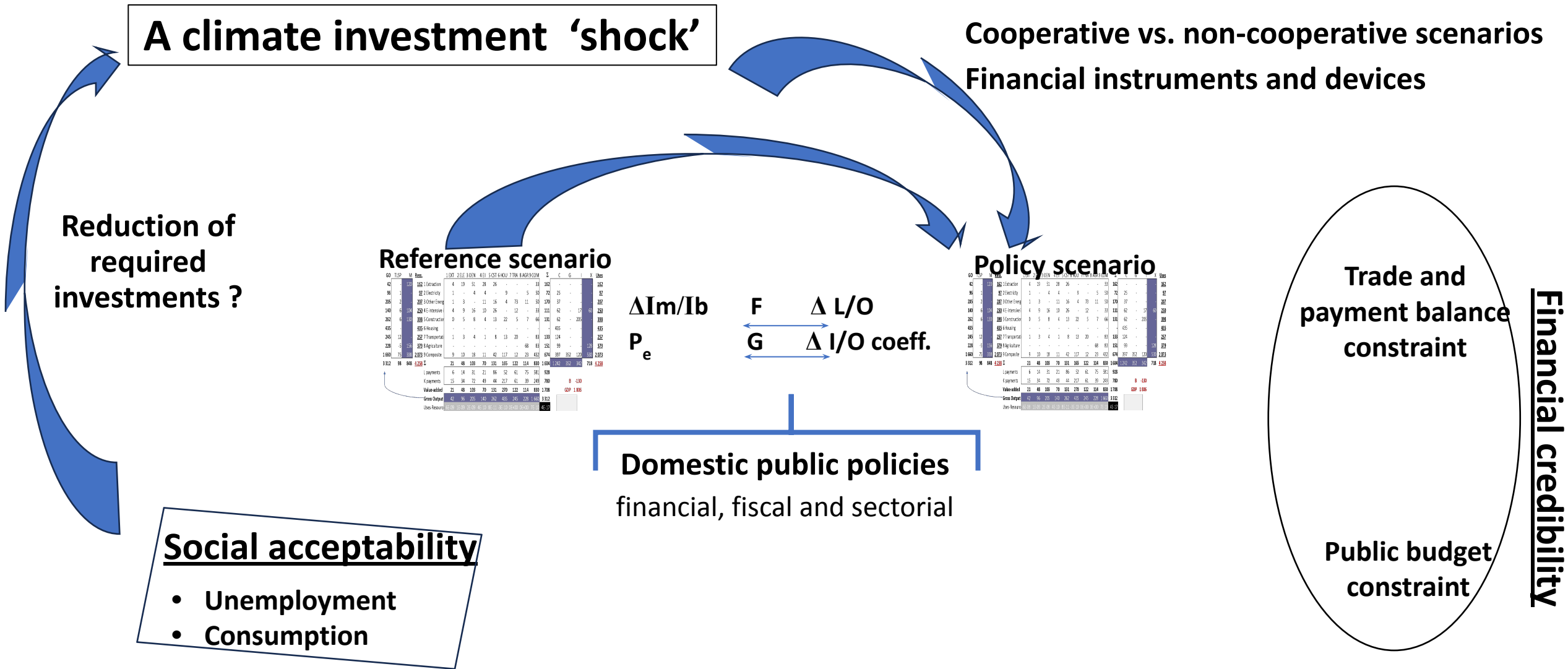
Why a MSGM will not be adopted solely to respond climate concerns

**Macrofinancial
Creditworthiness**

**Macrofinancial
Creditworthiness**



A numerical exercise to detect the non climate-centric benefits of a successful acceleration of climate policies over the next decade



A LCI investment shock without climate finance

	100% pass through on the selling prices		100% public subsidies	
	T = 5	T = 10	T = 5	T = 11
Gross amount of LCIs (million USD)	107'100	211,950	107'100	211,950
Energy price index (1 in the ref)	1.32	1.55	1.00	1.00
GDP variation compared to ref.	- 3.96 %	- 19.49 %	0 %	0 %
Public deficit	- 7.16 %	- 6.55 %	- 10.55 %	- 12.08 %
Sovereign debt in % of GDP	86.75 %	102.50 %	85.06 %	86.85 %

Payment balance:

PayBal = Δ trade balance (B) + Δ financial balance (FinBal) + Δ public sector budget + Δ sovereign debt

The sovereign debt is the adjustment variable balancing the payment balance

The effect of the financing vehicles' structure on selling price increases

	No cooperation		Cooperation (low hypothesis)		Cooperation (high hypothesis)	
Share of 'eligible' projects for guarantees	10 %		30 %		60 %	
% Covered by the guarantee	70 %		70 %		80 %	
At what %?	70 %		70 %		80 %	
Auto-financing (%)	30 %		30 %		20 %	
Equity (domestic / foreign)	5 % (2.5 % / 2.5 %)		5 % (0 % / 5 %)		20 % (10 % / 10 %)	
Bonds (domestic / foreign)	10 % (5 % / 5 %)		0 % (0 % / 0 %)		25 % (12.5 % / 12.5 %)	
Bonified loans (dom. / foreign)	34 % (17 % / 17 %)		44 % (0 % / 44 %)		20 % (10 % / 10 %)	
Complem. loans (dom. / for.)	21 % (5 % / 16 %)		21 % (5 % / 16 %)		15 % (3 % / 12 %)	
		t = 10		t = 10		t = 10

What share of normatively 1°5 ° C targetted Low Carbon Investments is compatible with the « no loss » imperative for consumer's purchasing power?

	No cooperation	Cooperation (low hypothesis)
Public investment / subsidies	20% of the LCI	20% of the LCI
Share eligible for guarantee	10 %	30 %
Covered by MSGM (%)	70 %	70 %
Auto-financing (%)	30 %	30 %
Equity (domestic / foreign)	5 % (2.5 % / 2.5 %)	5 % (0 % / 5 %)
Bonds (domestic / foreign)	10 % (5 % / 5 %)	0 % (0 % / 0 %)
Bonified loans (dom. / foreign)	34 % (17 % / 17 %)	44 % (0 % / 44 %)
Complementary loans (dom. / for.)	21 % (5 % / 16 %)	21 % (5 % / 16 %)
Reduction of the amount of LCI (%)	<u>- 22 %</u>	<u>- 12 %</u>

The untied climate/development Gordian knot?

	Cooperation (high hypothesis)
Public investment / subsidies	20% of the LCI
Share eligible for guarantee	60 %
Covered by MSGM (%)	80 %
Auto-financing (%)	20 %
Equity (domestic / foreign)	20 % (10 % / 10 %)
Bonds (domestic / foreign)	25 % (12.5 % / 12.5 %)
Bonified loans (dom. / foreign)	20 % (10 % / 10 %)
Complementary loans (dom. / for.)	15 % (3 % / 12 %)
Reduction of the amount of LCI	- 12 %
GDP variation (t = 10)	2.07 %
Energy price variation	+0.16%
Public deficit (t = 10)	- 7.3 %
Contribution to GDP (t = 10)	+ 2.2 %

The Climate Remediation Assets (CRA) perspective

- Sovereign debt without CRA: 87 % of GDP in $t + 10$
- Value of CRA per ton in a 2°C scenario 84 - 191 USD in $t+10$
- Total CRAs in 2030: 38 - 85 billion USD
- Reduction of sovereign debt with CRAs: $-1 \% > -2 \%$ in $t + 10$
- Overall impact on GDP: very country specific
Brésil vs India vs OPEC vs Low Income countries

From the potential to reality: a design issue with political traps

- **The obvious condition:**

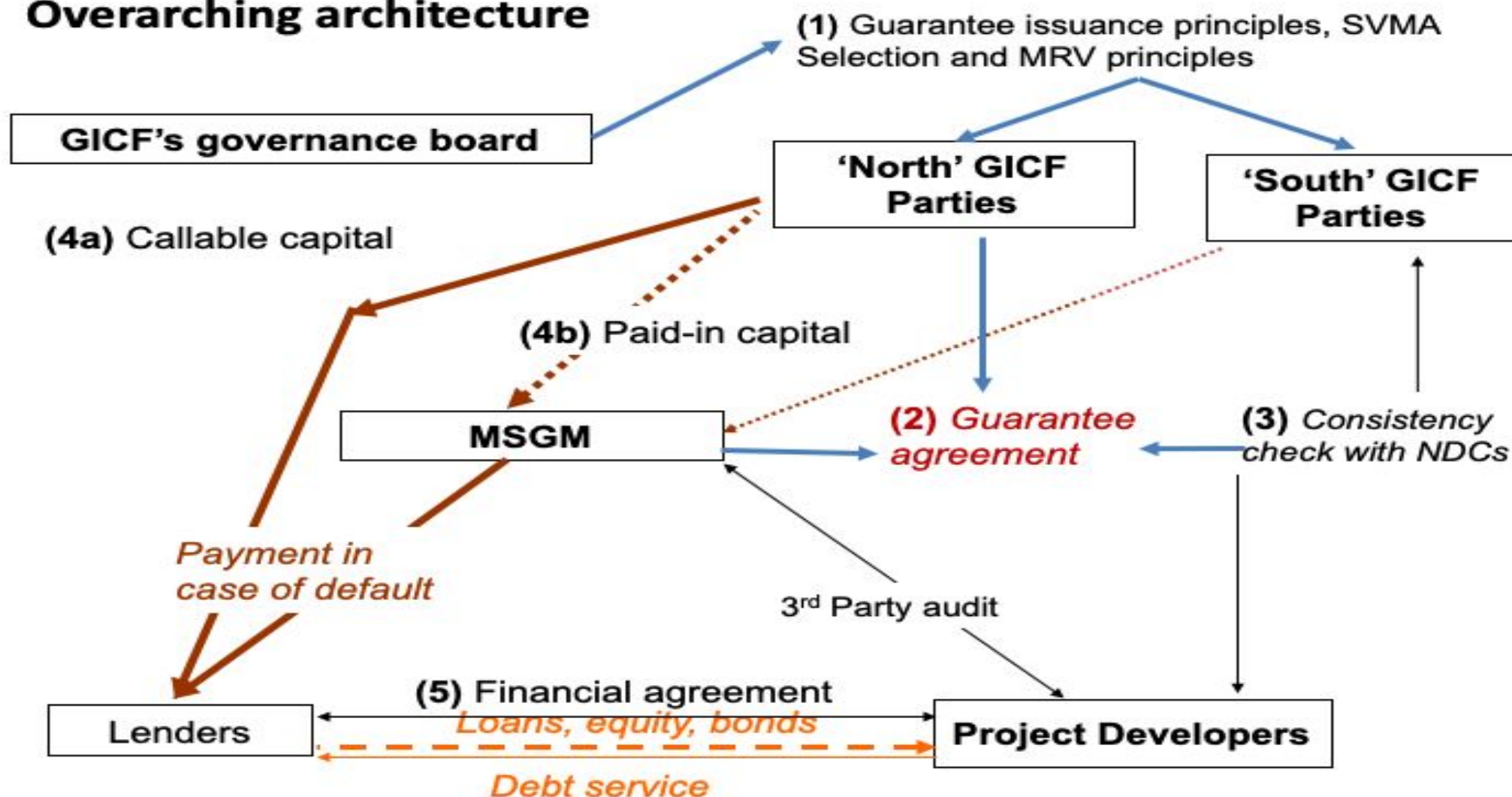
- creation of a group of the willing to demonstrate the mutual benefits of 'circle of trust'
- Agreement around a set a robust basic principles attractive enough for this 'club', the 'new entrants' and acceptable by existing financial institutions

- A set of **controversies traps** apt to block any consensus from the outset)

- The white elephants risks
- The adaptation versus mitigation problem
- The energy centric bias
- The Brics versus Low Income countries issues

- Responses basically in the rules and procedures of the project selection

Overarching architecture



Basic principles for the project's selection

- Eligible projects: retained in host countries NDCs only
- Transparent procedures aiming at a ***right balance between maximizing the 'statistical climate and development additionality'*** of projects in the context of inaccurate knowledge of their future performance, and ***high transaction costs that deter initiatives***.
- ***Agreed-upon calibration rules of the amount of guarantees*** based on:
 - An assessment by ***a third-party expert body of the upper and lower bounds of expected emission abatement*** by types of projects in specific countries or regions.
 - The ***use of a notional value per ton of avoided emission*** to improve the overall economic efficiency of the portfolio of funded projects for a given amount of avoided emissions.
 - A country/region/sector specific **SVMA** "social, economic, and environmental value of mitigation actions [and] their co-benefits" (Article 108 of the Paris Agreement decision).

Responses to the controversial issues

- ***Crowd-in private capital*** make available public grant-based overseas assistance for in basic needs, poverty alleviation and adaptation
- A large number of projects delivers ***adaptation and mitigation co-benefits***, the former being internalized into the ***SVMA***
- Adaptation incorporates a lot on non easily marketable services and an MSGM will help the ***co-mobilization of public-guarantees and grants***
- ***A commitment of guarantor's countries to dedicate to such grants a fraction of the tax revenues of the exports generated by guaranteed projects***
- The ***SVMA*** and progresses in assessment methodologies of carbon abatement and sequestration ***can hedge against and energy centric biai***s;
- Later deployment of project under an MSGM can be reduced through guidelines for the recognition of the conformity to the general principles of ***facilities targeted to specific sectors in specific sectors and regions***
- The **gap between the value of carbon and domestic capacity domestic to pay** is higher in low income countries: this results in a far higher cash-grant equivalent and a relatively higher positive impact on the countries near a debt distress

Conclusion: three lines of intellectual combat

- Opening a discussion with the 'climate agnostics' decision makers about the costs, benefits and effectiveness of strategies for reducing the fault lines of the world economy deprived from synergies with climate policies

Helping the advocates of climate policies to understand the paradoxical nature of the Climate Emergency and integrate the Cancun's paradigm shift out of a climate centric paradigm

Informing, though an immediate launch of a 'design lab', the high level, politically sensitive discussion about the 'location' and the 'porting' of MSGM mechanism