PRINCIPLES FOR RESPONSIBLE ENERGY AND CLIMATE INVESTMENTS (PRECI)

OR: HOW TO ENSURE THE "CLEAN TRILLION" IS SOCIALLY RESPONSIBLE AND ADDRESSES BOTH MITIGATION & RESILIENCE

SUMMARY

- Figures close to the French Presidency are promoting the idea of an initiative in Paris to shift the "Clean Trillion" - driving at least $1 trillion in incremental investment in the energy sector to promote low emissions growth.

- While the scale of these funds is critical, so is the quality. Funds mobilized to invest in low-carbon development should be subject to standards, which should be agreed in a participatory way, and subject to independent verification. But the funds should also be deployed in the interest not only of low-carbon, but also climate-resilient development.

- **Our proposal:** to launch a tripartite process that should involve civil society as full negotiating partners, the private sector and governments, to agree upon a set of principles to guide responsible investment in the energy and climate-related sectors for low-carbon and climate-resilient development.

- Various principles/standards for climate-compatible investments are already being developed (from those involved with CERES to the Green Bonds Principles), but rather than having various sets of principles developed in tandem, this would be one legitimate forum for developing a single gold standard to which all actors could be attracted over time.

Objective for the Bonn intersessional:

- Road-test the idea, especially amongst allies from civil society, governments and private sector.
- For more information and to discuss: Romain.Benicchio@oxfaminternational.org

THE SCALE OF NEEDED INVESTMENT IN LOW CARBON DEVELOPMENT

IEA $ 1 trillion/year incremental

- The World Economic Forum projects that by 2020, about $5.7 trillion will need to be invested annually in green infrastructure, much of which will be in today's developing world.
- This will require shifting the world's $5 trillion in business-as-usual investments into green investments, as well as mobilizing an additional $700 billion to ensure this shift actually happens.
- The Climate Policy Initiative estimates that we are currently at roughly $360 billion annually in public and private climate investments, with developed country governments providing somewhere between $10-20 billion per year, according to their fast-start finance reports and OECD estimates.
- When you consider these figures, the $100 billion annual goal that is usually referenced is only a small piece of the $5.7 trillion puzzle. Both public and private levels of funding need sustained growth to ensure that we get on a pathway to meeting investment needs in 2020 and beyond.

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In the first instance, a voluntary inclusive, gendered, tripartite process – involving governments, civil society and private sector all at the table – could be established. This could be modelled on the approach adopted at the Committee on World Food Security (CFS), in which the Civil Society Mechanism (CSM) co-ordinates civil society negotiating positions, alongside representatives of governments and the private sector.

The principles should encompass, but not be limited to:

1. Ensure consistency with the goals of poverty eradication and sustainable development
2. Be directed at decarbonisation and promoting climate resilience
3. Implement social and environmental safeguards in line with national regulations and international best practice (if different, whichever is the higher), in order to avoid negative impacts such as, inter alia, land grabbing, human rights violations, biodiversity degradation, tax avoidance, etc. These include international benchmarks such as Free, Prior and Informed Consent (FPIC), the OECD Guidelines and the UN Guiding Principles on Business and Human Rights
4. Ensure that financing is transparent and accountable (e.g. not channelled through tax havens and with clear beneficial ownership and revenue transparency).
5. Implement an exclusion list of projects that cannot be supported. This includes both direct and indirect financing of harmful fossil fuel projects in developing countries which do not meet social and environmental safeguards, lack robust impact assessments, are incompatible with a country's trajectory for its fair share of emissions reductions or where pro-poor alternatives exist.
6. Assist and report on the potential lifetime cost and the scale and distribution of risk of all investments, to ensure fairness and to ensure that the receiving country and its population do not end up incurring additional unforeseen costs.
7. Institute an effective complaints- and grievances mechanism

EXAMPLE - HOW THE PRINCIPLES COULD BE APPLIED TO GREEN BONDS

Standards should be attached to green bonds, to ensure that their end use – i.e. the projects that are being funded – are both worth their green label and pass the responsible investment test, and to provide investors with transparency and assurance regarding the viability and characteristics of the underlying assets. Compliance with these standards should be an absolute precondition if public money is involved.

The below diagram suggests how the PRECI principles could be applied to Green Bonds – through a system of cascading principles and standard setting, which also allows for developing government ownership. The first step would be to translate PRECI into a set of common standards for the content and governance of Green Bonds. These Green Bond Standards would be a step forward from the current voluntary industry framework – the so-called “Green Bond Principles” - which were launched at the Ban Ki-moon Climate Summit. Individual issuers of Green Bonds – whether companies or governments etc – could then get their bonds certified as complying with these standards. And ’sell-side’ intermediaries like banks could then easily identify these certified bonds, and package them up into products like Green Bond indexes ready for big investors on the ‘buy-side’.