C.I.R.E.D.
Centre International de Recherche sur l'Environnement et le Développement

Chaire Modélisation prospective au service du développement durable

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The missing wrinkle
Climate finance … in a 2nd best world

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What the economics of a 1st best world say

- Put a **price** on carbon to internalize its **social cost and trigger investments** in low carbon technologies

- **Equalize marginal costs** across countries and sectors

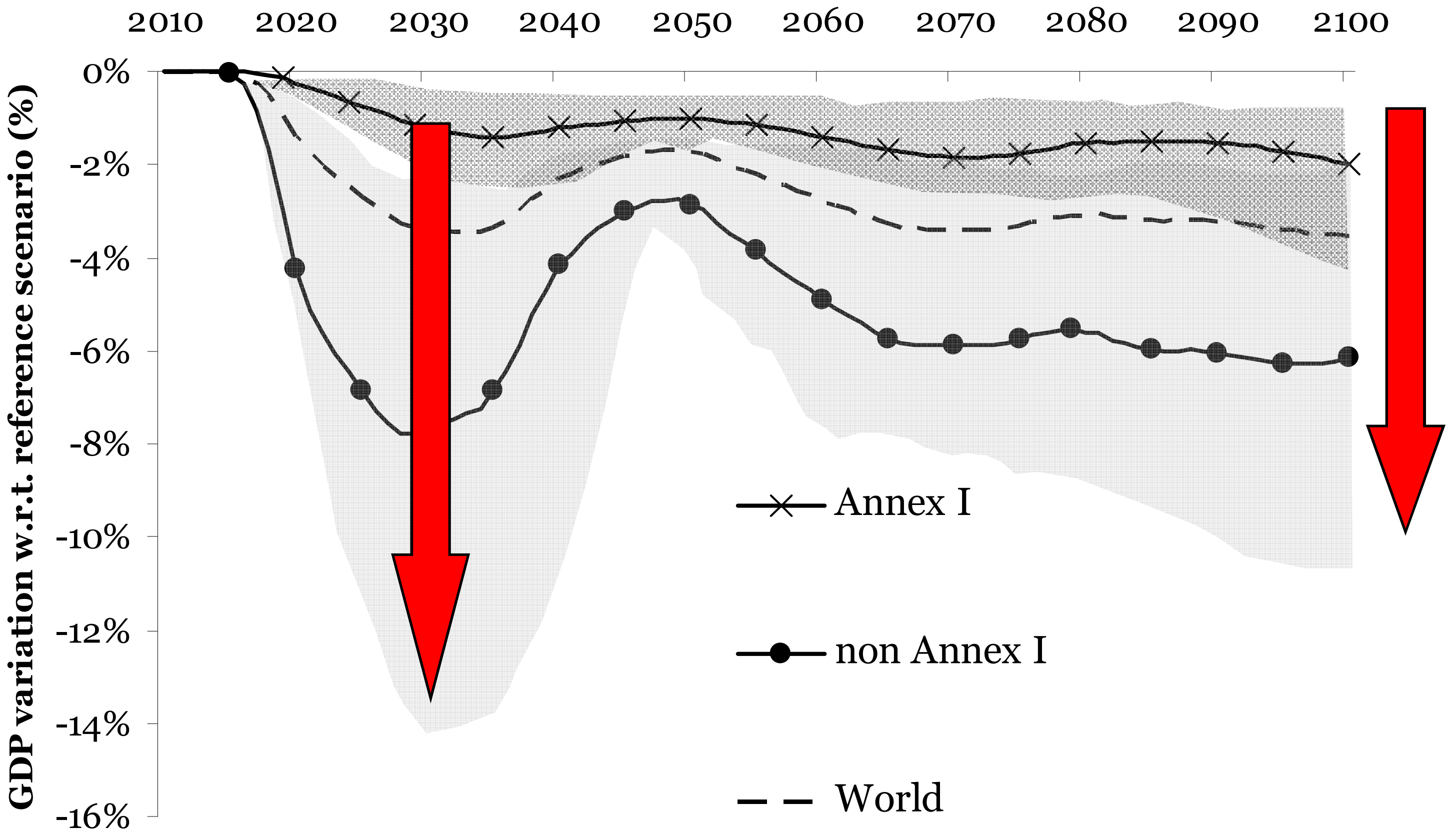
- **No distortions** in **international industrial competition**

- **In case of adverse effects for the "poors", give them generous targets**

Do these precepts hold in a 2nd best world?

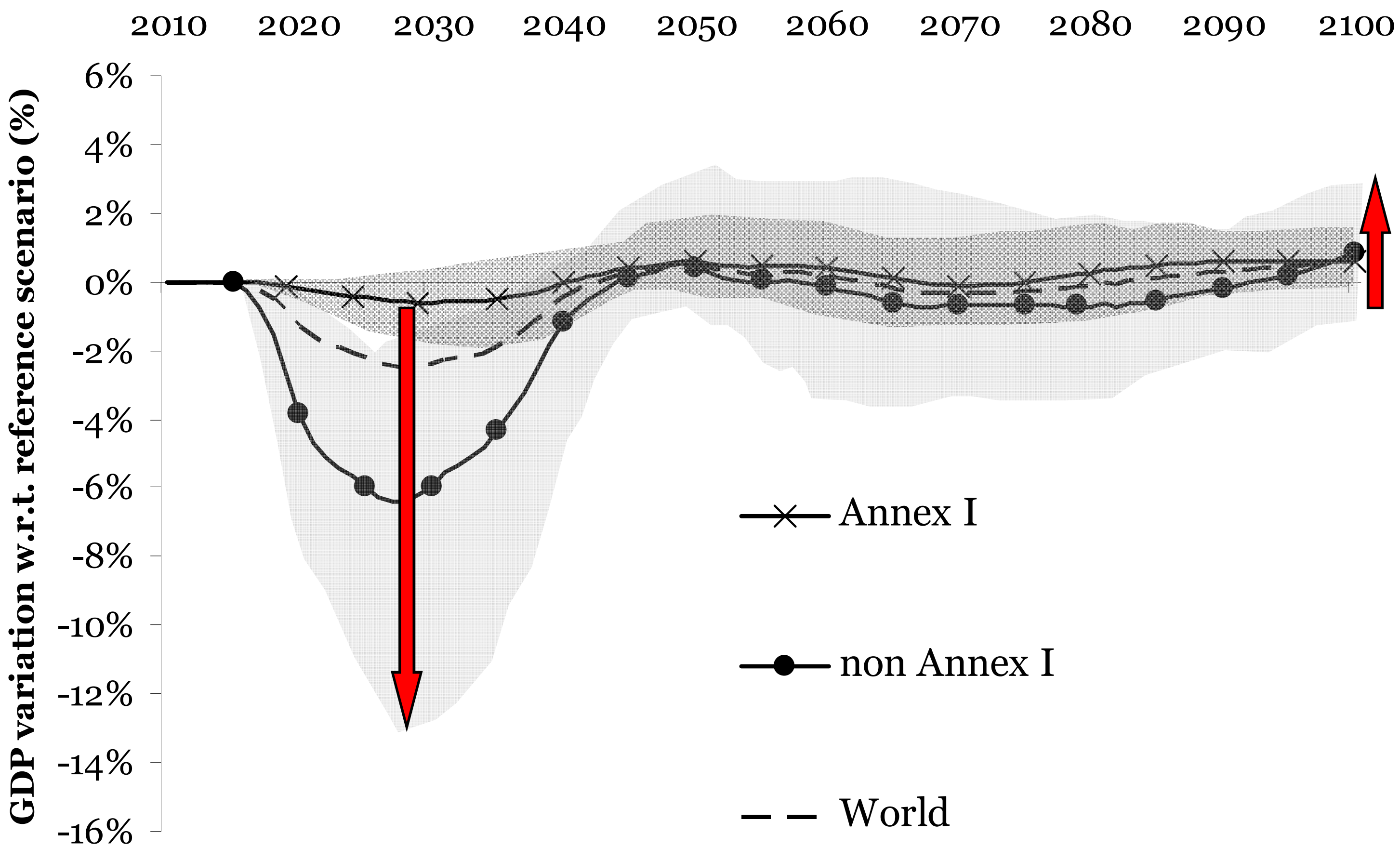
- **Inertia** in changing **technical equipments** and **behaviors**
- **Propagation** of higher energy prices to **production costs** in a context of **heterogeneity of industrial structures**
- **Adverse income effects** on the major part of the population
- **Carbon prices swamped by other signals: necessity to yell**

A carbon price only scenario: mind the transition …. and the end point



(450ppm CO2 stabilisation scenarios)

Early Action on Infrastructures: reassuring end-points … and still transition problems



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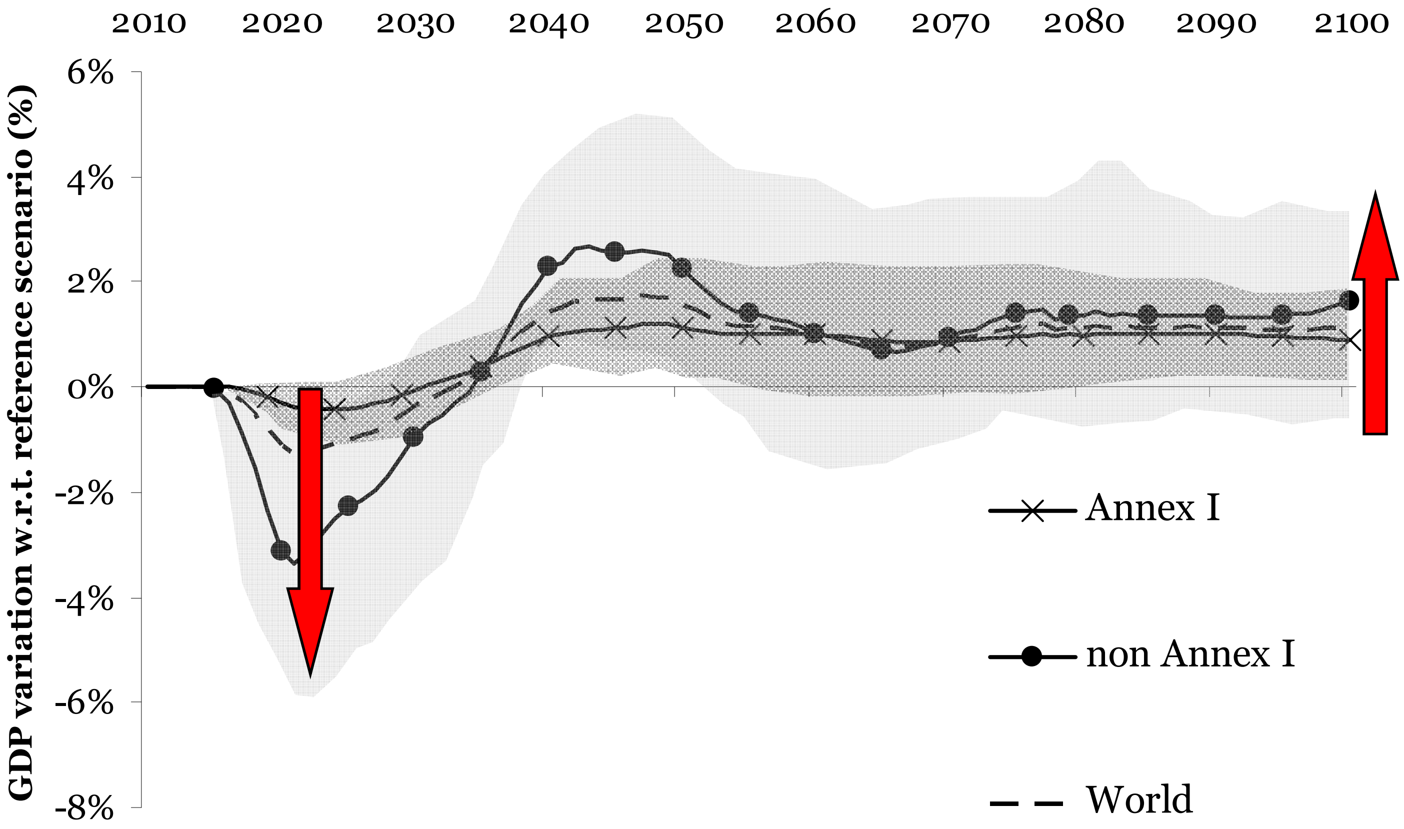
Re-frame the conventional wisdom

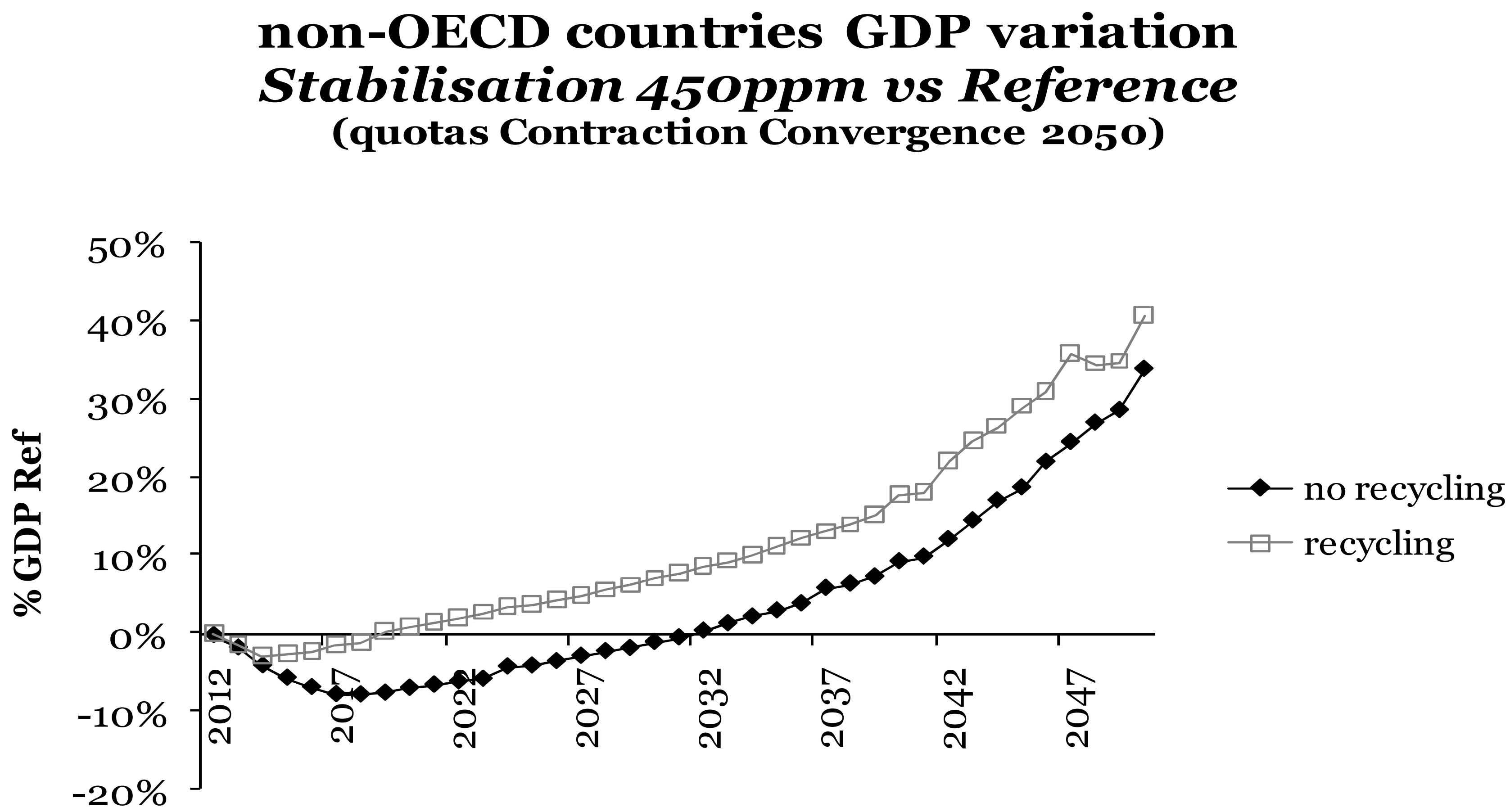
- Climate policies **are beneficial over the long run,** but uniform carbon prices (only) policies are **squeezed**:
    - **They hurt emerging economies over the short run** (when the carbon prices are low, relatively low!!!)
    - Without preventing **risks of lock-in** in carbon intensive development pathways
- **Non negotiable « equity »:**
    - Unrealistic amounts: Europe (1.2% of GDP, USA 1.7% of GDP in 2030)
    - Untimely timing
    - Risks of misuses of a form of **manna from heaven**
- **Articulating financial support to infrastructure projects and Namas in the absence of fully fledged carbon market**

Early action on infrastructures and fiscal reform



(450ppm CO2 stabilisation scenarios)

Where compensatory transfers become affordable….!!!



Aid or Innovative financial tools?

- **Changing context for overseas aid** and funding
  - Decreasing amounts
  - Emerging countries = **capital exporters**

- This is **not** a problem of **capital shortage** but a problem of savings' direction (sovereign funds, pension funds …)

- **Risk mitigation instruments** and public-private initiatives (from exchange rate risks to project risks)

- Upgraded monitoring and «**good quality money**» to support **Namas**

'Financial' crisis: a moment of opportunity?

- Climate regime and the reform of the international financial system
  - Socialisation of bad debts ….in exchange of what?
  - **« Social value of carbon »** as a way out the risks of the **«commerce of promises»**
  - A way of **re-directing world savings**
- Towards a climate friendly recovery of the world economy
  - Less export oriented policies in emerging economies
  - An global spill-over effect through infrastructure markets
  - Less erratic capital flows