

FINANCING A JUST TRANSITION TO A 2030 NET-ZERO CARBON BIRMINGHAM

Centrality of finance¹

Finance is always at the heart of climate policy and that is no exception with the Just Transition. Ensuring that the transition is not only fair but positively contributes to an inclusive economy should lie at the heart of policy. This short paper makes the case that *financing the Just Transition* should be formally recognised as critical to success and is an issue which should be managed in an open, democratic way.

New economic models¹

Just Transitions involve new mindsets, reframing problems, creativity, different economic models and innovative approaches to finance. This involves rethinking models of growth and development so that responses to climate change become inclusive by design.

A key shift is towards a circular economy, that is, to quote #WM2041, a local economy that is *'zero carbon and abides by circular economy principles, while enabling the people of the region to build and enjoy their prosperity.'* Prosperity, though, should not only be measured as GDP or money incomes, but also in terms of health and well-being and long-term sustainability. Increasing income retained within the local economy, a key circular economy feature, also contributes to more resilient communities and helps reduce inequalities.

Covid-19 pandemic economic shock and a Values-Driven Recovery

Currently, the Covid-19 pandemic is delivering a massive shock to the city's economy as well as being a major health crisis. The Covid-19 economic shock is likely to be comparable to the 2008 banking crisis and the 1978 manufacturing collapse. The communities, people in insecure employment and small businesses being hardest hit by the Covid-19 economic shock are the same as would be adversely affected by an **unjust** transition to a net-zero carbon Birmingham.

The Covid-19 pandemic provides an opportunity for a 'green' economic recovery rather than simply attempting to return to the old, unsustainable 'normal'. Faith communities provide a moral and spiritual basis for just transitions and a 'green' Covid-19 recovery. Spirituality has an important role in fostering transformation. Care for creation is intrinsically interwoven into different spiritual traditions. The ability of faith to inspire change at different levels cannot be discounted. Islamic banking practices, Jubilee cancellation of debts and other different faith approaches to money are relevant to a green Covid-19 recovery that is shaped locally and moves away from a 'growth-at-all-costs' to a 'leave-no-one-behind' approach to the economy.

Portfolio of fundable projects and initiatives

The schematic diagram on page 3 is based on good practice for managing the financial elements of large complex transformation programmes. Key elements of this approach include:

- Invest in changes which deliver clear, measurable benefits to particular "communities"
- Fund projects, not ideas and notions
- Funds will probably flow without intervention to projects which are commercially viable by standard criteria
- Some projects, however, will suffer from barriers to investment. The projects may be worthwhile for a Just Transition, but not "commercial". In other cases, market failure or distortions may halt or delay investment. These barriers need to be overcome by including innovative sources of funding and / or by changing the rules of the game. For example, by assigning tangible value to gains in social and natural capital, greater sustainability, greater community resilience, lower inequality, etc.
- The whole portfolio needs to take risk and resilience more seriously. The pandemic has demonstrated that "black-swan" risks tend to be under-weighted in traditional financial evaluation. The same is currently true for climate risks.

Barriers¹

As an example, various barriers to ‘decarbonising Birmingham’s electricity’ were identified as:

- Political / funding / energy policy barriers
- Technological
- Knowledge and awareness
- Supply chain / infrastructure
- Lack of incentive / motivation
- Behavioural

Similar analysis should be applied to all the other major classes of projects in the Just Transition portfolio – housing, transport, green economy, etc. Some of the transition funding must be invested in new knowledge, skills, products / services and capacity to deliver and support change.

Funding Projects¹

Making the shift to a net zero economy will require the UK’s financial system to manage climate risks effectively and efficiently by channeling capital towards sustainable activities. A decarbonised, net-zero economy could involve extra investments of 1–2 per cent of UK GDP per year until 2050, but it would also create thousands of new jobs, with an associated economic boost. Financial innovation – in the form of alternative sources of funds and varying criteria for investment - is needed to accelerate the Just Transition. The threat of not only ‘stranded assets’ and ‘stranded enterprises’ but also ‘stranded workers’ and ‘stranded communities’ must be recognised and managed, because about one fifth of current jobs will be affected by greening the economy.

The left side of the diagram gives examples of a wide range of new approaches to financing the Just Transitions, ranging from private direct investment and crowd funding through bank finance to Green Bonds and sector-based schemes.

Conclusions

1. As the work of the R20 Task Force moves from development of the Action Plan to implementation, financing the Just Transition has become an urgent issue.
2. Innovative finance approaches will be required, because traditional analysis approaches for private and public capital investment will probably result in too little money, too late to support the Just Transition.
3. Coordinating diverse investments from a wide range of sources will also require innovative approaches to drawing different stakeholders together and ensuring that expected benefits (financial or otherwise) flow when and where desired.
4. Faith communities can contribute different value sets, sources of funding and criteria for investment – examples include Islamic banking and Jubilee debt relief.
5. Coordinated, multi-stakeholder management of investments, projects and resulting benefits should be built into governance arrangements for the Just Transition.
6. The Just Transition will be more likely to succeed using a governance approach which maximises community involvement and consensus-building around values, priorities, and benefits.
7. If the partners on the Task Force can create an innovative finance approach for the Just Transition, it would put Birmingham at the leading edge of cities / regions taking decisive action on the climate emergency.

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NOTE 1 These sections draw heavily on the Footsteps’ *Just Transition* and *Decarbonising Birmingham’s Electricity* papers previously submitted to the Taskforce. The paper also draws on work undertaken by the Grantham Institute, other subject experts and other cities.

Financing the Just Transition to Net-Zero Carbon – Investment Case Framework

