

The Emperors Clothes?

Policymaking amidst Covid-19 and sustainability crises

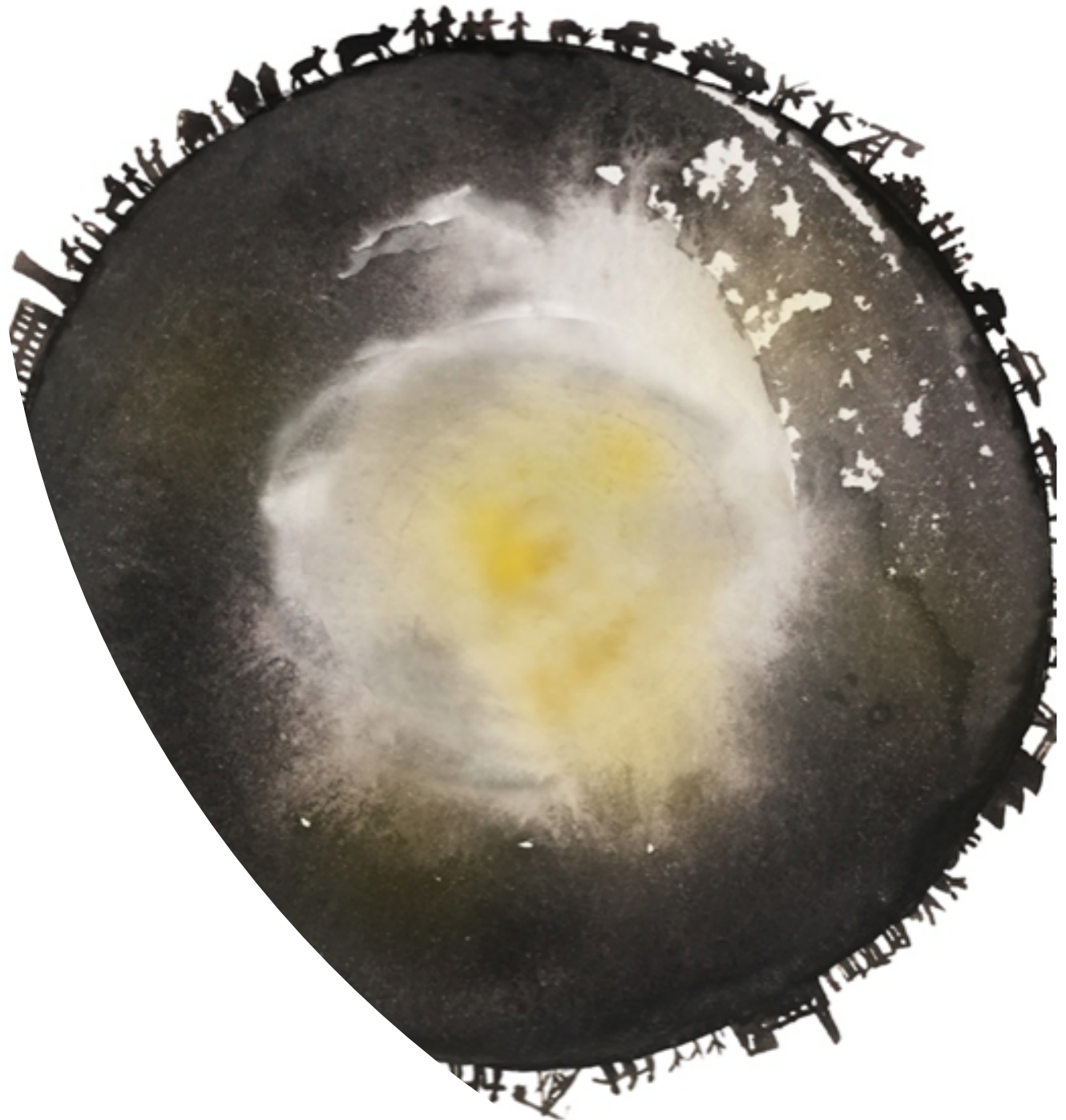
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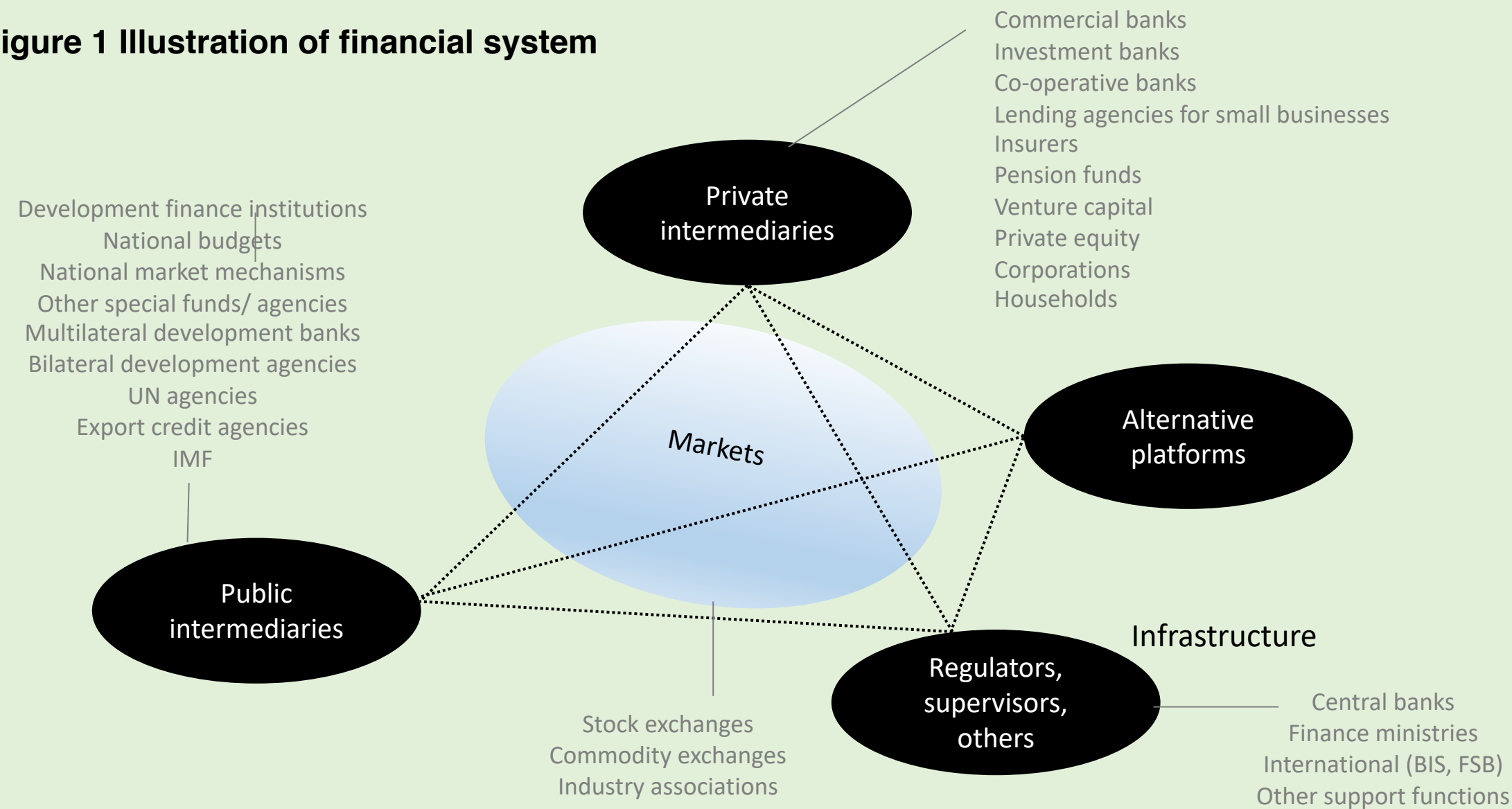


Linking finance response and sustainability policies

1. Policymakers mainly interpret the role of financial system as only securing more finance for projects or supporting the recovery – slowly shifting
2. Financiers appear to drive solutions, rather than needs if situation driving finance
3. Responses and policies may be shallow relative to what is required
4. Deep risk of creating *unsustainable* “sustainable pathways”

→ Will the financial system create *and* sustain new sustainable pathways?
→ How would we know this is the case?

Figure 1 Illustration of financial system

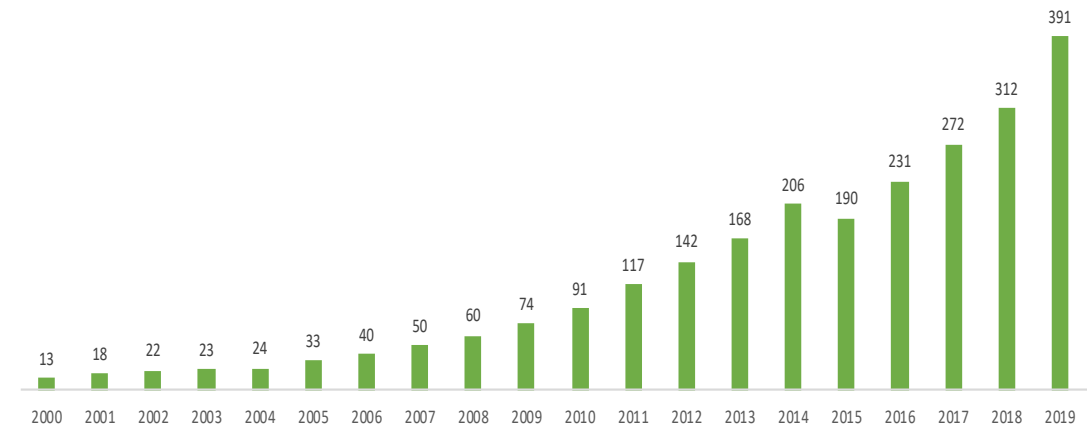


What is happening in practice (financial system)?

- Over 115 sustainable finance initiatives and 390 sustainable finance measures
- Mainly risk-based approaches (transition, physical risks)
- Covid-19 – strong narratives of “Green/clean” recovery” + focus on international finance + central banks
- Bond market frenzy: climate, green, transition and now covid-bonds

Figure 2 Growth in sustainable finance measures

Source: Adapted by author based on extract from UNEP Inquiry database.



What does covid-19 reveal?

- unique vulnerability of each country (and the consequence of past policy decisions)
- the extent of our ill-preparedness for crises situations
- the inflexibility of economic, social and financial systems
- danger of expediency in the face of crises (deadly trade-offs)
- risk of conditionalities and sacred preconditions linked to financial response
- Innovation and ingenuity exists in unexpected places

Academic linkages

- Substantive literature base on finance and sustainability – growing since 1988 (post 1987 Brundtland Commission).
 - Expectations of public vs private
- Nascent engagement in orthodox literature on finance
- Emergent approaches (doughnut economics, ecological economics, mission-oriented finance, evolutionary economics) not mainstreamed into orthodox approaches

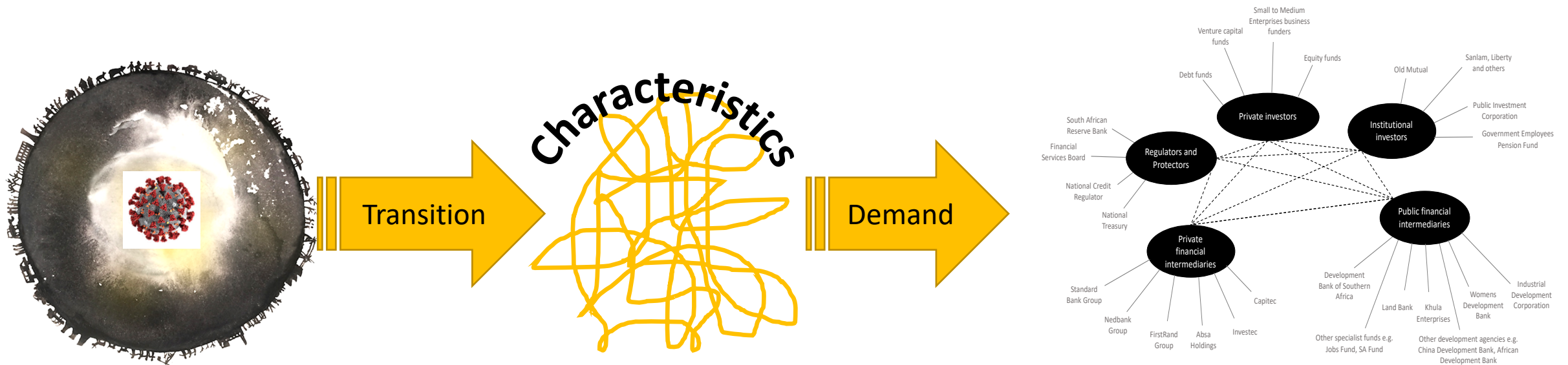
Table 1: Framing of sustainability-related finance in academic literature

Terms linking finance and sustainability	Scopus results	Publication period	# Co-occurrence of “sustainability transitions”
Social finance	99	1988, 1999, 2008–2019	0
Environmental finance	88	1989–2019	1
Responsible investment	800	1991–1994, 1996–2019	3
Socially responsible investment	609	1991–1994, 1996, 1998–2019	2
Sustainable investment	300	1992–1995, 1998–2019	6
Sustainable finance	129	1992, 2004–2019	1
Green finance	80	1997, 2005, 2011–2019	1
Impact finance	18	2000–2019	0
Carbon finance	200	2002–2019	0
Climate finance	323	2004–2019	0
Impact investing	141	2011–2019	0
Total papers	2,787		14

Source: Naidoo, C.P. (2019). Relating financial systems to sustainability transitions: Challenges, demands and design features. EIST

My learning ... to invert perspectives

- Approach builds on the hypothesis by Perez (2002) and O’Sullivan (2005) that “the characteristics of the innovation process informs the demand for finance”

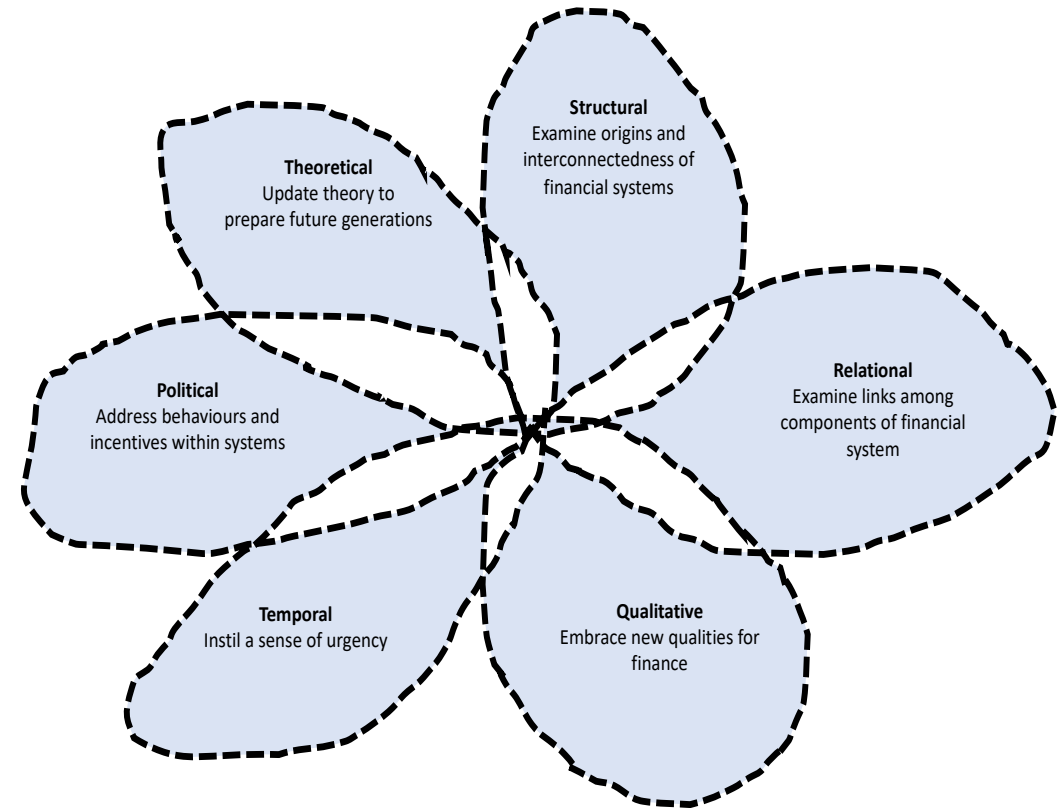


Operationalising “inversion” – transition demands framework & design features for financial systems

Table 1: Transition demands framework

	Transition characteristics	Consequential demands placed on the financial system
#1	Directional changes	The intermediaries, markets and infrastructure of the financial system consistently direct themselves toward achieving a new sustainable economic system.
#2	Temporal realities	The financial system responds across short-, medium- and longer-term timeframes to address the systemic needs of transition processes.
#3	Co-existent system effects	The financial system generates environmental and social system-level effects by creating new socially inclusive, environmentally sustainable economic systems <i>and simultaneously</i> destabilising old environmentally unsustainable, socially unequal economic systems.
#4	Contested social context	The financial system engages with a broad base of stakeholders in developing its response to support the transition process.
#5	Contextual experimentation	The financial system experiments and applies adaptive approaches to address the contextual needs of sustainability transition processes.

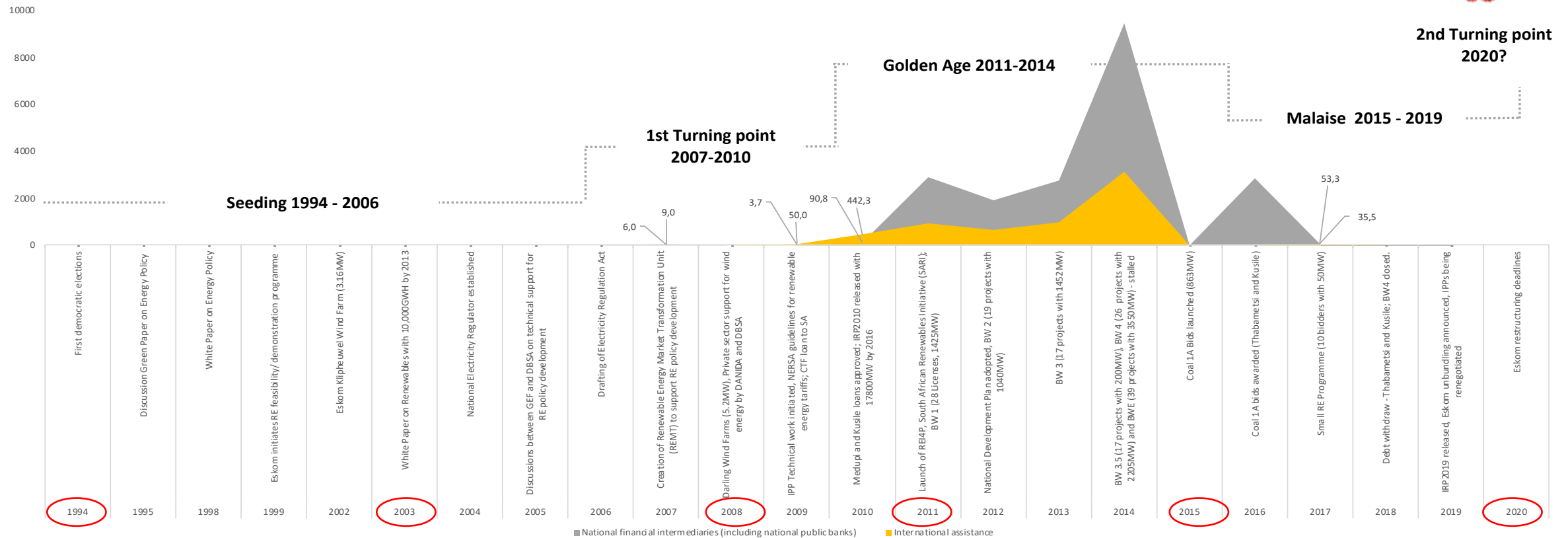
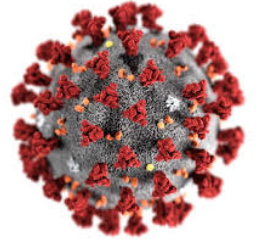
Figure 1: Design features for financial systems response to transition demands (page 67)



Source: Naidoo, C.P. (2019). *Relating financial systems to sustainability transitions: Challenges, demands and design features*. EIST

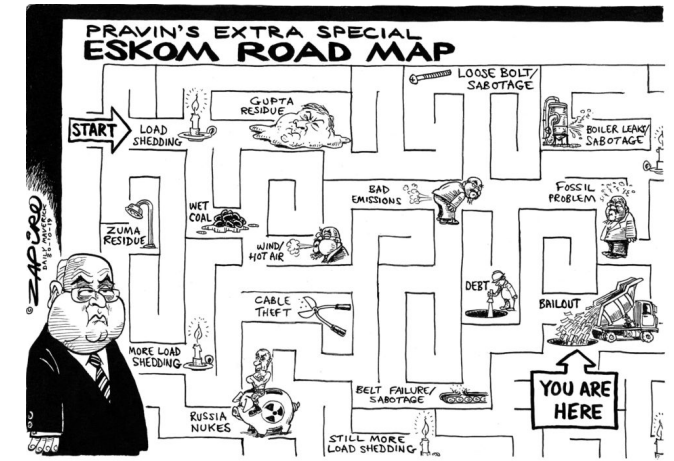
Empirical testing: SA energy transitions (1994 – 2019)

Policy and finance milestones of SA energy transition (1994 to 2019)
(Numbers in ZAR 'millions)



Source: Naidoo, C.P. Transition demands and financial intermediaries: Energy transitions in South Africa (1994 to 2019) - forthcoming

Interesting policy insights – drawn from the same data points

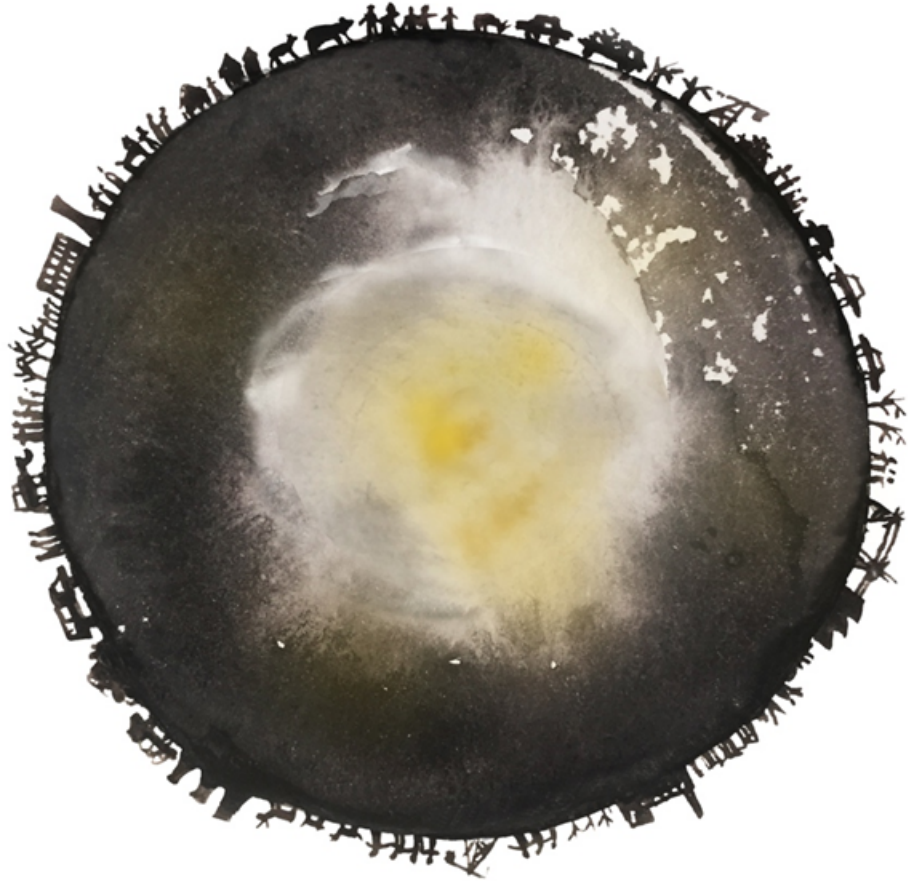


- #1 Crisis-imposed responses are driving the country's energy transition
- #2 Ambiguity exists about the direction of energy transitions
- #3 Engagement with financial intermediaries only addresses project-level issues
- #4 Reliance on government support is unrealistic for future energy investment
- #5 Financial practices exist that are incompatible with sustainable energy systems
- #6 Expectations gap exists between policymakers and financial intermediaries
- #7 Financing ambiguous policies will reach a crossroads due to civil pressures
- #8 Inadequate policies exist for aligning social objectives with energy transitions



So what does this matter for research and policymaking in transformed world?

1. Identify the 'sacred laws' that are unchallenged? (*emperor*)
2. Interrogate assumptions of solutions being considered (*clothes*)
3. Consider why and how these are so closely guarded? (*child*)
4. Flexible - play with options (how to think deep, and fast) (*weavers*)
5. Engage with complexity – oversimplification narrows policy scope



The purpose of life is evolution
from lower to higher
from ignorance to knowledge
darkness to light.

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