

# Climate action - leave no one behind



Will Arnold explains that the developing world also offers investors a route for positive returns

**London Climate Action Week this year coincided with a meeting with one of our core infrastructure holdings which focuses on renewable energy in the developing world. It was a stark reminder of how much still needs to be done.**

As we know, climate change is a global issue and attention needs to move away from a home bias when we think about solutions to it. Many developed countries have set climate pledges to transition to net-zero by the end of 2050 at the latest. Among other things, this has led to an uptake in renewable energy, albeit at a slower pace than is required.

In the UK, for example, we have enjoyed some sunny and breezy weather of late, allowing our electricity grid to be running close to two thirds on zero carbon sources at times. In fact, earlier this year, we broke the record for the lowest carbon intensity on our grid since records began.

#### Inclusion for all

However, achievements such as these will mean absolutely nothing if developed nations do not help the developing world in its transition. In order for us to reach the targets set out by the Paris Accords, no nation can be left behind.

On top of this, the transition to a cleaner way of life has monumental health benefits, particularly in the developing world. It is developing nations, such as Bangladesh and Pakistan, that have some of the most polluted and deadly air in the world. Carbon counting alone is simply not enough.

The acceleration towards a climate disaster began in the post-World War two era. Fossil fuel use was wide-ranging in many of the now developed nations during a period of accelerated economic activity. Corporate behaviour and externalities were less scrutinised, and this was a similar case to individuals' behaviour.

#### Impact being felt

The negative impact on the planet was not widely understood, and it is the poorer nations that are now feeling the worst effects of climate change.

Over the past couple of decades, it has been the turn of less developed nations to

expand economically, leading to population growth, urbanisation and wealth creation. However, it comes at a time of greater scrutiny of how our actions impact society and the planet.

Emerging and developing Asia provides a good example of this. It accounts for over 60% of the world's population, and will grow to form an even greater percentage. GDP and energy consumption growth is also rising at a much faster rate than in the developed world. However, much of this is fuelled by dirty fossil fuels such as coal, and this is the challenge we now face.

The Asian Development Bank estimates that \$1.7 trillion of sustainable energy infrastructure investment is needed in Asia every year to help the continent transition, of which only around 50% is provided currently. India, for example, is the third largest emitter of fossil fuels, and coal accounts for the majority of its energy production. Countries like the UK, which over the centuries have reaped riches from the exploitation of people and resources, cannot expect countries like India to change this overnight.

#### Providing vital support

About four million people are employed directly and indirectly in India's coal industry. In the east of the country, where the majority of coal reserves lie, coal powers the economy as well as the lights. It is the lifeline of some of the poorest. What is vital is that there is a strategy whereby the transition does not leave people behind, and this will require substantial outside investment. Richer nations which

have ultimately sown the seed for climate change to accelerate need to help their poorer counterparts.

COP 26 did begin to bring this funding gap more into the light. It reaffirmed that developed countries must deliver on their promise to mobilise \$100 billion every year in climate finance to support developing countries.

In 2019, \$79.6 billion was mobilised. While still insignificant in the bigger picture, and short of the target, there is no disagreement over the requirement for climate finance from richer nations. However, the debate rages over whether developed nations owe poorer countries compensation for the climate change impacts from which they are already suffering. Climate talks in Germany earlier in June this year led to limited progress on the matter.

While governments have a part to play, it is clear that going forward the major source of capital for the developing world to invest in their clean energy infrastructure will have to come from the mobilisation of private finance. But outside investment is not about free money. The market for clean energy infrastructure in the developing world presents plenty of opportunities for investors to receive a good return while making a positive impact.

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**Will Arnold, Assistant Portfolio Manager, King & Shaxson Asset Management**

