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Systemic Approaches to Change:

or

Why “Muddling Through” Wont Do

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Background



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- Non-profit, public interest European organisation with a global scope
- Founded in 2005 with mission to “accelerate the transition to sustainable development”
- Focus on informal diplomacy working across energy, environment, security, diplomatic and economic sectors

My Background (abridged)

- UK Prime Ministers Strategy Unit
- FCO: Environment Policy Department
- Climate and energy research at London Business School and MIT

Three Core Points



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- Better ways of driving policy and political change are needed to deliver our goals
- The barriers to change are not primarily economic, technical or analytical but political and institutional
- We can use new approaches to accelerate and better direct change – but this is as much about innovation, design and new skills as it is about new analysis



- Real Decision Making in Day to Day Government
- Techniques for Driving Intentional Change
- Examples from E3G's Work
 - Low Carbon Zones in China
 - UK Green Investment Bank
- Influencing Real World Decision Making



The Reality of Decision Making?

“There is nothing a government hates more than to be well-informed; for it makes the process of arriving at decisions much more complicated and difficult”

John Maynard Keynes

We know what we need to do



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- Resource constraints, risks and threats to societies and individuals are well understood
- Managing these requires investment in preventative, trans-boundary, innovative responses which would generally be *cost-effective for society*
- Despite numerous good speeches and declarations we are far from achieving these goals
- Barriers are primarily political and institutional not technical and economic

Our systems for delivering technical and economic change are far stronger than those for achieving institutional change

Change is a messy, complex and uncomfortable process. A reactive stance often makes sense.



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Pandolfo Petrucci, Lord of Siena, to Machiavelli (Florence, c. 1515):
'wishing to make as few mistakes as possible I conduct my government day by day and arrange my affairs hour by hour; because the times are more powerful than our brains'



Need to understand the real constraints on decision makers – not just assume they lack “political will”

Prescriptions put forward to address complex issues are often seen as unrealistic by decision makers



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	Sustainable Development Ideal	Practical Policy Makers' View
Coherence	All policy should be integrated and coherent, both domestically and internationally	We have enough problems agreeing what to do internally without involving anybody else who will just obstruct action
Long term approaches	Policy should take a long term and preventative view and not just focus on short term reactive responses	We are overstretched just keeping day-to-day operations afloat, planning over the next budget period and reacting to events.
Managing uncertainty	Policies should consider the full range of possible uncertainties	More uncertainty is unhelpful and complicates decision making. What am I meant to do with it?
Systematic approaches	Polices should be designed in a systematic manner embracing and controlling all parts of the problem	Systematic proposals are overcomplicated and can never be implemented in the real world

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“It ain’t what we do it’s the way that we do it – and that’s what gets results”

Fun Boy Three, 1981

Building a compelling case for change requires a “why, what and how”



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Why?

Building the case for action

What?

What action is needed?

How?

How should organisations respond?

All elements needed to deliver real action – balance of influence depends on issue and context

Doing the policy and politics together



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Design the Politics....

- Bringing all necessary decision-makers together
- Focussing and framing choices
- Defining decision points and opportunities
- Building and animating winning coalitions

With the Policy

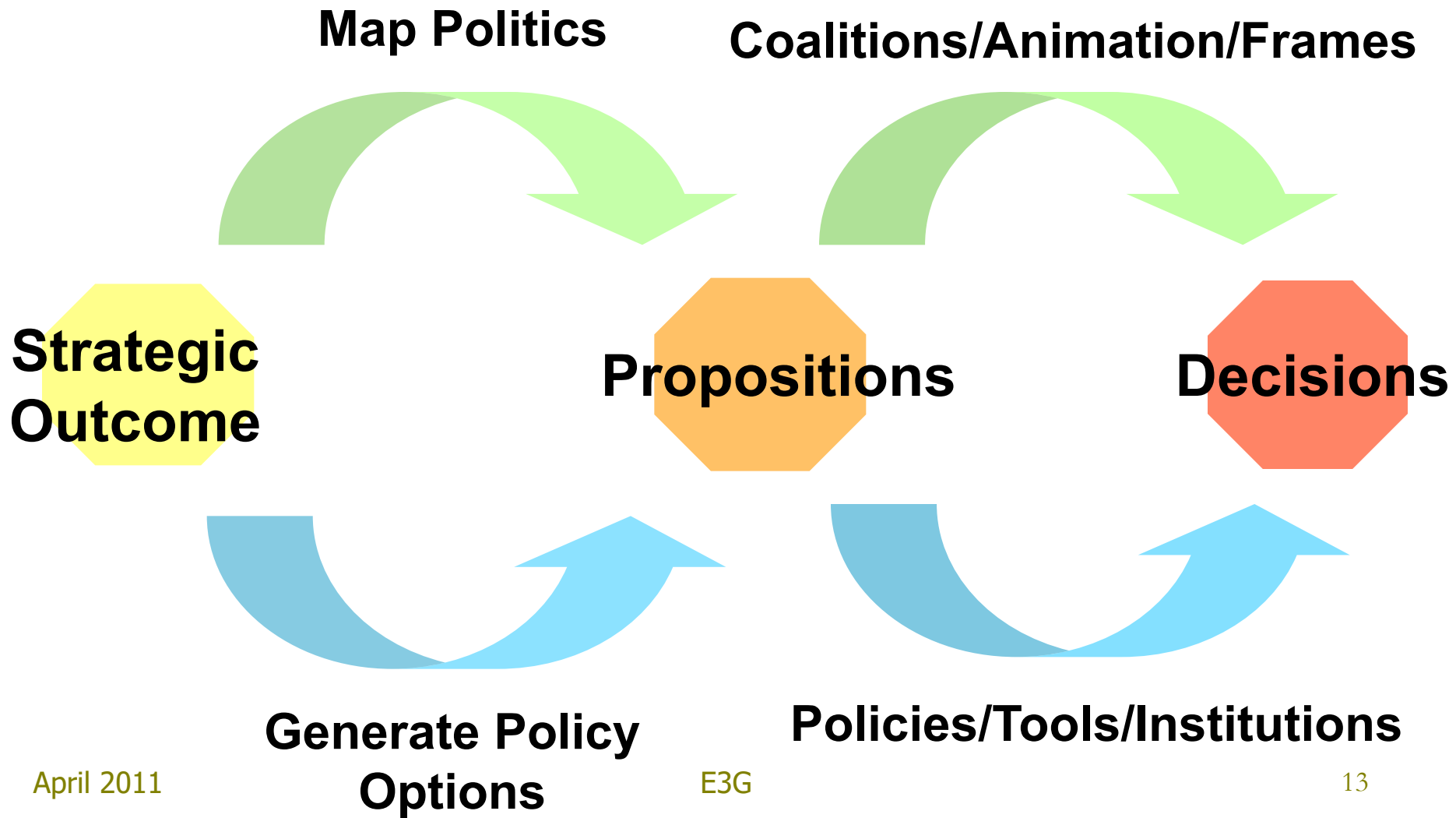
- Research and analysis
- Designing policy and institutional solutions
- Assembling necessary resources

**The right people, in the right place, at the right time with
the right choices in the right context**

E3G Strategic Change Framework



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Requires 5 core Competencies



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1. Strategic Thinking
2. Coalition Building and Animating
3. Thought Leadership, Agenda Setting and Framing
4. Organisational Change and Institution Building
5. Policy, Tool and Knowledge Development

Competencies in the Change Framework



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2. Building and Animating Coalitions

3. Thought Leadership, Agenda Setting, and Framing

1. Strategic Thinking

Propositions

Decisions

4. Facilitating Organisational Change and Institution Building

5. Generating Policies, Tools and Methods

From interventions to institutions



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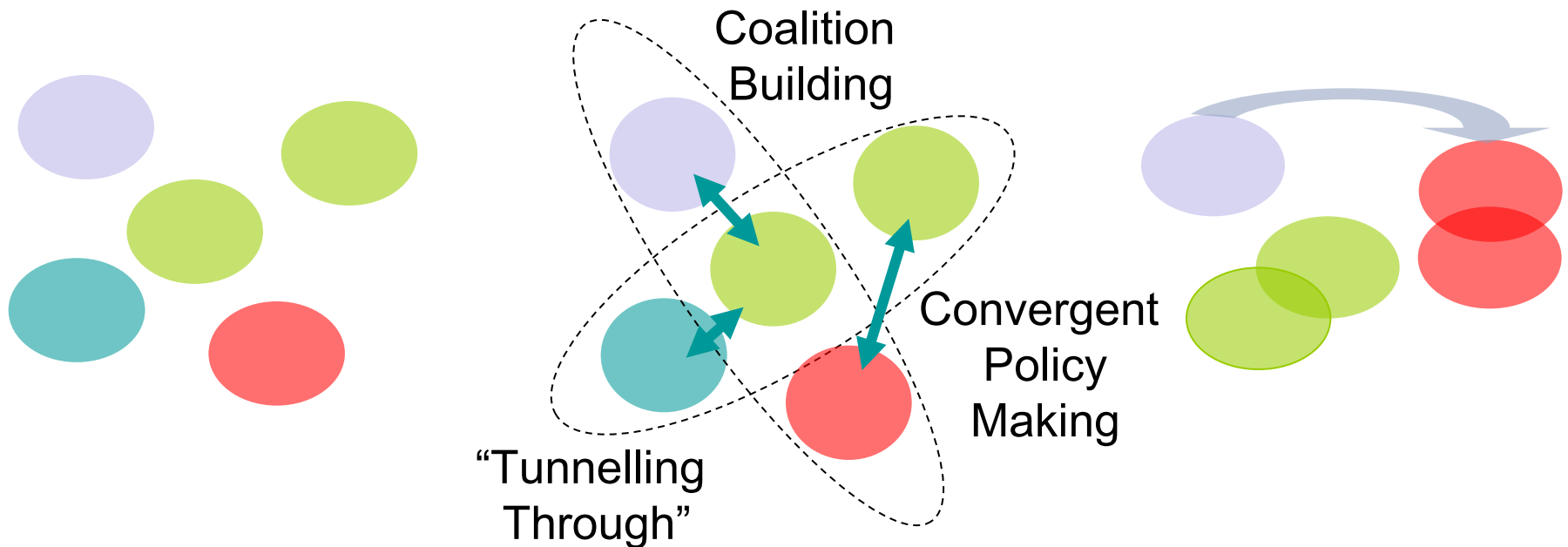
Fragmented
Decision
Landscape



Strategic Outcomes



Institution Building



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China is serious about tackling climate change and rethinking its development model



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- Premier Wen July 2007:
“We must understand in full that carrying out the work of energy conservation and emission reduction and coping with climate change is a requirement of the scientific development concept.....it is a test of the Government’s ability to govern and the extent of public trust in it, and it is a responsibility to the international community which China must shoulder”.
- President Hu June 2008:
“China needs to....accelerate the shift of economic development mode, enhance the conservation and high-efficiency use of energy, actively develop circular economy and low-carbon economy.....”

But faces unique challenges



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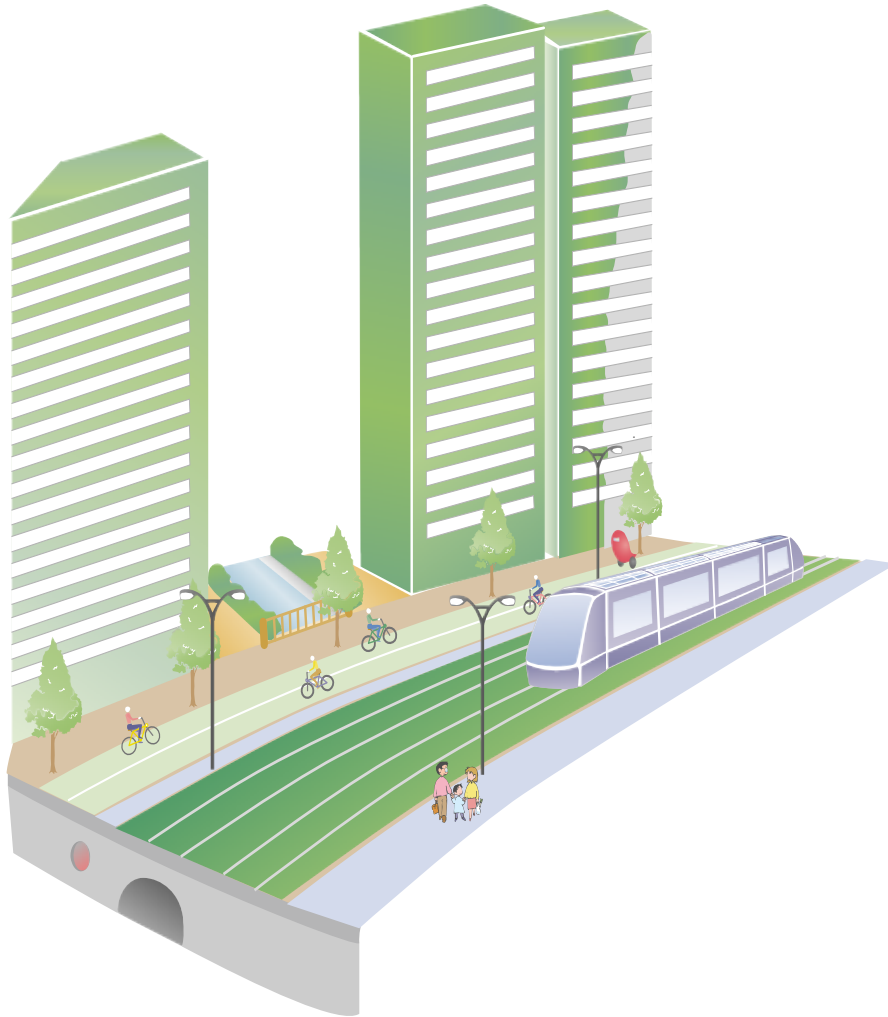
- Imperative of economic growth: per capita GDP = \$2,500 in nominal terms, less than 10% of the EU average
- Energy and carbon intensive economy: 48% of the world's cement, 35% of its steel, 28% of its aluminium. 70% of power from coal.
- New construction between now and 2020 will exceed entire building stock of EU-15.

How to combine rapid urbanisation, industrialization and poverty reduction with the transition to a low carbon economy? No country has ever done this before at this stage of development.

Low Carbon Zones: Piloting the transition to Chinese low carbon economy



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- Large scale regions committed to rapid **low carbon transformation**
- **Testing grounds** for regulatory, economic, trade and investment policies promoting the necessary scale of economic transformation for a low carbon future and a powerful **demonstration** of the viability of low carbon economy
- An **integrated approach** linking different sectors to achieve sustainable dev
- Driven by **strong Chinese leadership** and built on past success of SEZs
- International cooperation on technology, investment and capacity building focuses in these areas to **maximise impact**

Why LCZs?



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- Emerged as key transformational proposal from EU-China research consortium in 2007
- Critical insight that most efforts to deliver strong EU-China cooperation required stronger and more innovative local governance
- The impossibility of delivering this at a national scale led to focus on regional development models
- The successful example of Special Economic Zones gave a political economy and administrative model familiar to the Chinese

LCZs have the potential to rapidly accelerate progress in areas of potential co-operation in transport, infrastructure, housing , power, industry and adaptation

Low Carbon Zone Change Process



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- High-Level EU-China Dialogue
- EU-China Stakeholder Group

- EU-China Summit
- China Council

**Accelerate Move
to a Low Carbon
Economy in China**

- EU-China Low Carbon Trade Area
- Low Carbon Zones
- 10 low carbon co-operation proposals

**Chinese Govt selects
5 provinces and
8 Cities as LCZs**

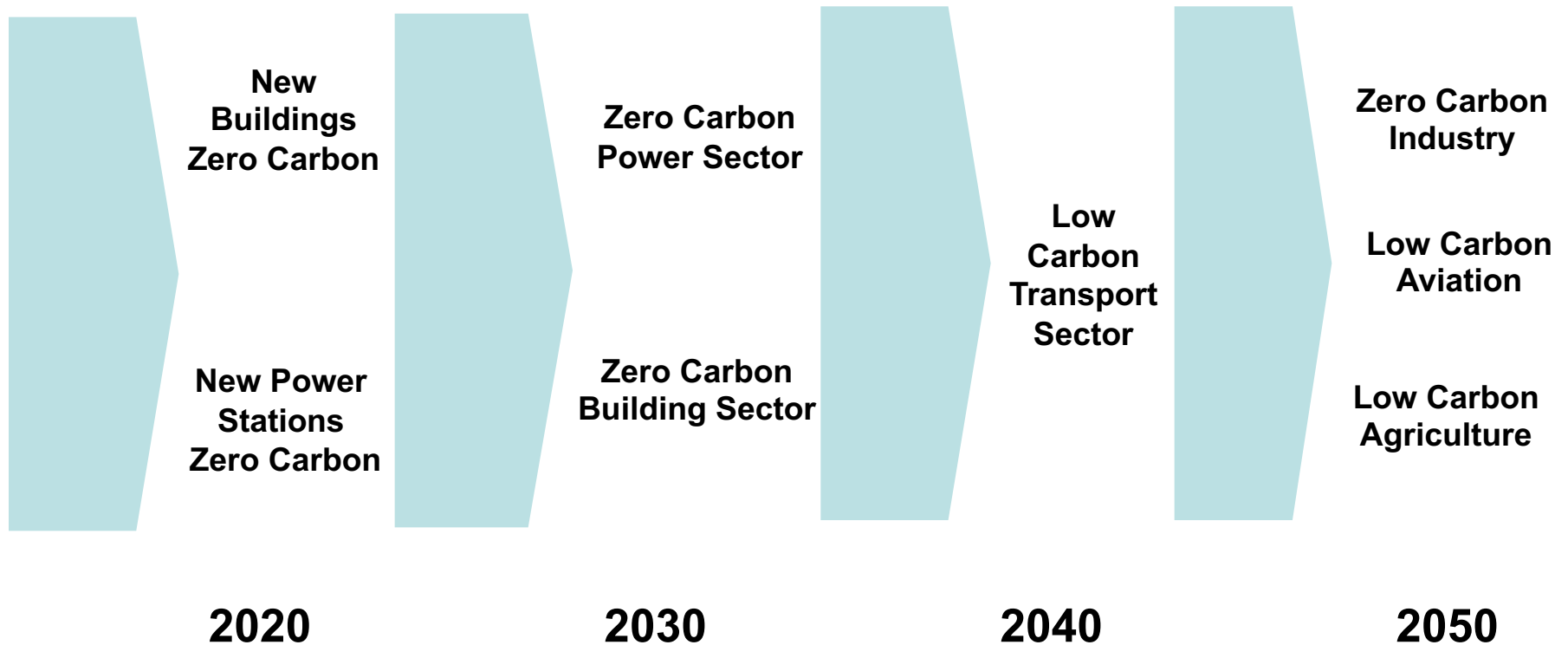
EU-China Joint Research Project

- 5 pilot LCZ studies
- 3 Technology Zone studies

UK Low Carbon Economy Routemap



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The Challenge of Low Carbon Transition



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- Need to shift investment focus on a huge scale; UK €1 trillion to 2030
- High levels of political risk and price volatility (oil/carbon/technology)
- Much investment needed in new markets and business models e.g. energy services/efficiency; forest protection; smart and super grids
- Market and technology often both at early stage so unattractive investment area for private capital
- Financial crisis has lowered ability of utilities to fund change

Response from many private investors is to not to invest

Financial Logic of Govt Intervention



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- Increase the Risk/Reward ratio for high carbon investment and decrease it for low carbon investment
- High Carbon Investment: Reward driven by oil price; risk only increases due to future impact of carbon policy on asset returns.
- Low Carbon Investment
 - Reward driven by carbon price, subsidies, feed-in tariffs etc
 - Risk can be lowered by: regulation and locking-in policy; direct intervention on carbon/clean energy price, public investment and/or govt risk guarantees

A solely reward-focused strategy may not deliver and pays extra-profits for (mis)perceptions of political risk



- Independent, government financed bank for delivering low carbon transition
- Four main functions:
 - Provider of new funds for low carbon investment via Green Bonds
 - An aggregator of low carbon projects for bond financing;
 - De-risking project finance (guarantees; debt finance);
 - Advisor to government on financeable policy design;
- Capitalisation of £4-6 billion to leverage £150-300 billion investment

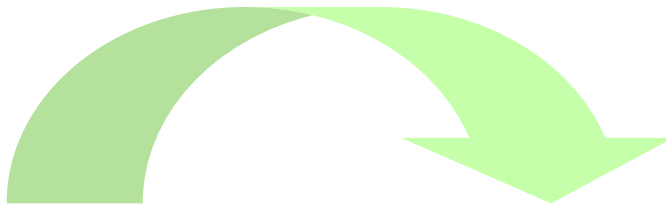
GIB Change Process



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**Political engagement with
Govt and main parties**

- Conservative support
- Party Manifestos
- Multiple Industry Voices
- Transform-UK Coalition



**Delivery of necessary
UK low carbon
investment**

- Green Stimulus
- Green Bonds
- GIB

- “In Principle” May ‘10
- £3bn Equity March ‘11
- Established Q1 2012



**Multi-stakeholder
“Green Recovery” group**

- GIB Commission
- Institutional analysis
- Consultation with banks
- EE financing analysis

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We will not be solve current global problems by “muddling through” or just adding more data



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- Need changes in technological, economic and regulatory systems inside a specific timeframe
- The need to drive “intentional change” requires explicit understanding of drivers, constraints, blockages, uncertainties. More facts are seldom the only answer.
- The need to build new institutions between different policy communities means creating common frames of analysis, common strategies and aligned objectives

Need to incorporate the political into policy design rather than treating as a black box or deriding it as communications or “spin”

Key policy community integration challenges



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- **Energy and climate security:** lack of common objectives, divergent world views and professional cultures is hampering construction of integrated policies
- **Finance:** better joint understanding of how investment and climate risk are perceived by finance community and method for accurately quantifying domestic “carbon liability”
- **Innovation Policy:** stronger understanding of national and global innovation systems; how key climate and energy technologies will be delivered; and explicit trade-offs between fast low carbon technology diffusion and narrow national competitiveness goals
- **Security, development and climate change:** joint tools for analysing impact of climate change on country stability and conflict in order to shift development investment and diplomacy towards preventive resilience building and risk reduction strategies

Key Systemic Policy Challenges



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- **Low Carbon Infrastructure Investment:** route map for building power grid (and CO2 grid) capable of delivering zero emission power sector by 2030-2035
- **Regional Transport Planning:** developing flexible urban and regional transport infrastructure systems economic under high energy and carbon price scenarios
- **Technology Policy and Competition:** balance of centralised and decentralised programmes to drive near to market technologies owned by incumbents to commercialisation while providing incentives for disruptive and new entrant solutions
- **Resilience Planning:** smart planning for infrastructure investments, information systems and management systems to prepare for increased climate variability

Simplicity not Simplistic



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“I would not give a fig for the simplicity this side of complexity. However, I would give my life for the simplicity on the other side of complexity”

Oliver Wendell Holmes

One Big Idea for the Action Lab



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- **A strategic framework:** Develop a high level routemap *for practitioners* of critical political decision areas which must be addressed beyond the “climate compatible planning” stage
- **Based on experience:** Build this based on understanding of the weaknesses of previous “top-down” change exercises and experience of EU and other decarbonisation processes
- **Prototyped in the field:** Use this strategic framework to prototype an “end-to-end” change process in 4-5 countries - combined with fast-start funding – to trial what really works and learn lessons across them

Thank You



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Materials can be found at www.e3g.org

Sustainable development is the preservation of the environmental and social conditions for prosperity. History shows that failure to manage these forces leads to political instability and conflict.



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