Financing a just transition in Ireland

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1. Introduction

More than a decade since the world descended into financial turmoil, the coronavirus crisis has once again revealed the fragility of the global capitalist system. Weakening demand and productive investment, stagnating living standards, burgeoning debt and growing financial instability meant the world economy was already in the early stages of a downturn: the pandemic and resulting lockdown was the trigger for what could turn out to be a severe jobs crisis and recession unlike any other. At the same time, the existential climate threat looms large. The more we learn about climate change, the more perilously off-track the world seems to be in meeting the limited ambition of the Paris Agreement, much less the pathway of a 1.5 warmer world. That climate breakdown is no longer a future threat but an urgent and present danger is clear from sea level rise acceleration, the frequency and intensity of heatwaves, ocean acidification, land degradation and the unprecedented decline of biodiversity.

The root causes of these intersecting crises are to be found in patterns of capitalist accumulation, exploitation and colonial expropriation, and their effects are largely determined by what the UN describes as 'the other defining issue of our time': growing inequality within states and between the global North and South.[1]

The pandemic has given us a glimpse of a bleak future in which large sections of the population live under a permanent state of emergency. A full-blown economic and humanitarian disaster awaits large parts of the global South, which are already suffering disproportionately from the impacts of global warming and are woefully ill-equipped to deal with a pandemic of this scale and severity. On the other hand, states with well-developed capacities the ethos to protect citizens have shown that they can act swiftly and at scale in times of emergency. That the world's elites have declared an emergency and marshalled trillions of dollars to prop up an ailing economy, not once but twice in a decade, demonstrates the possibility of mobilising society's resources and state capacities to confront the planetary emergency today.

This conjuncture may be remembered as a turning point, or the single biggest missed opportunity in the fight against climate breakdown. The pandemic and economic lockdown initially resulted in a sudden 17% drop in global carbon emissions, but at the cost of huge suffering for low-paid workers and marginalised communities.[2] This has been celebrated by some of the more mindless elements within the environmental movement, but does not correspond with the planned, structured and equitable transformation of economy and society advocated by radical climate experts and activists.

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1 UN, *The Sustainable Development Goals Report 2019* (2019), **https://unstats.un.org/sdgs/report/2019/The-Sustainable-Development-Goals-Report-2019.pdf**.

2 'Global emissions plunged an unprecedented 17 percent during the coronavirus pandemic', Carbon Brief Daily Briefing, 20 May 2020, **https://www.carbonbrief.org/daily-brief/global-emissions-plunged-an-unprecedented-17-percent-during-the-coronavirus-pandemic**.

Photo by Calvin Hanson | Unsplash

It has, however, suspended the future and presented many pandemic states 'with a second chance to ensure that this time around they address the planetary emergency, social inequalities, precarious work and the lack of resilience of many of the systems (not least food) that rely on globalised (and therefore vulnerable) supply chains'.[3] Respected commentators such as Adam Tooze have suggested that the combination of macroeconomic trends, market shifts and youthful green activism bodes well for more rapid decarbonisation across Europe.[4]

What happens over the coming period will therefore determine the kind of economy and society that will emerge once – or if – the public health dangers of the pandemic begin to recede. Yet, even at the time of writing, the latent dangers of the situation are becoming ever clearer. Governments and central banks have intervened in the economy on a massive scale, and in ways that are somewhat different from their response to the financial crash. There appears to be no immediate route back to anything resembling pre-COVID normality that does not involve added human suffering. But for all the pronouncements that the coronavirus spells the end of neoliberalism, there are precious few examples of states taking the requisite steps to transform the economic and financial system for a green and just recovery. On the contrary, it is clear that powerful vested interests are best placed to capture the agenda and exploit the crisis for their benefit, even if that means the use of sweeping authoritarian powers.[5] And while the slide into austerity politics is unlikely to occur at the same rate or in the same fashion, the ground is already being prepared with talk of 'balanced budgets' and the idea that COVID-related interventions will eventually have to be 'paid for'.

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3 John Barry, 'This what real emergency looks like: what the response to Coronavirus can teach us about how we can and need to respond to the planetary emergency', Green House Think Tank (February 2020), p. 12, **https://www.greenhousethinktank.org/uploads/4/8/3/2/48324387/this_is_what_real_emergency_looks_like_-_final_15-04-20.pdf**.

4 Adam Tooze, 'Carbon pricing and the exit from fossil fuels', *Social Europe*, 6 July 2020, **https://www.socialeurope.eu/carbon-pricing-and-the-exit-from-fossil-fuels**.

5 An Interview with Philip Mirowski, 'How Neoliberalism will Exploit the Coronavirus Crisis', 18 May 2020, **https://tribunemag.co.uk/2020/05/how-neoliberalism-will-exploit-the-coronavirus-crisis**.

These battles are raging at a European level, where the financial commitments and climate principles of the EU's recovery package have been successfully watered down by an alliance of the fiscally conservative north and socially conservative east, namely Hungary and Poland.[6] This follows the launch of a European Green Deal that has been heavily criticised for adopting a 'third way approach' that does not seek to fundamentally transform the corporate or financial sectors, but instead promises to divert public money towards subsidies for greenwashing.[7] The more the EU fails to align its economies and policies with its own goal of climate neutrality by 2050, and to do so in a way that protects the vulnerable populations of its member states, the more it says that a Green New Deal and just transition will need to be 'part of a collaborative rather than a singular project': one that 'relies on external cooperation' but takes 'different conditions into account' and is 'implemented by local and nationally accountable institutions that reflect domestic conditions'.[8]

Ireland is in a period of political flux, but the issues of climate and austerity are set to dominate the agenda in the coming months and years.[9] In this context, the research paper that follows sets out to explore a number of key questions that are central to the discussion on climate action:

1. What are the main economic, political and public policy trends relating to climate action in Ireland, and what are their social implications?

2. What would an ambitious state-led investment strategy in a Green New Deal and just transition consist of?

3. What role does the Irish financial sector play in facilitating or inhibiting the fight against climate breakdown? And what needs to be done to transform private finance in Ireland to ensure that it plays a more supportive role?

There are a number of important questions that are not addressed here in any great detail. For instance, we do not intervene in the fraught and complex debate between eco-modernists and those who assert the need for a degrowth perspective.[10] But a number of points are worth making in order to properly situate this work into the broader context. There is a dangerous complacency behind the idea that we can bet on techno-fixes to save the planet, with some taking the argument to the point of absurdity and doing a disservice to serious eco-modernist

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6 Eszter Zalan, 'EU leaders agree corona recovery after epic summit', *EU Observer*, 21 July 2020, **https://euobserver.com/economic/148997**.

7 Daniela Gabor, 'The European Green Deal will bypass the poor and go straight to the rich', *The Guardian*, 19 February 2020. **https://www.theguardian.com/commentisfree/2020/feb/19/european-green-deal-polish-miners?CMP=share_btn_tw**.

8 Ann Pettifor, *The Case for a Green New Deal* (London: Verso, 2019), p. 68.

9 'Ireland', for the purposes of this research, denotes the southern state of Ireland officially known as the Republic of Ireland.

10 See, for example, Leigh Phillips, 'The degrowth delusion', *openDemocracy*, 30 August 2019, **https://www.opendemocracy.net/en/oureconomy/degrowth-delusion/**; Andrea Grainger, 'In defence of degrowth', 5 September 2019, **https://www.opendemocracy.net/en/oureconomy/defence-degrowth/**.

Photo by Donal Higgins | R2W Protest

scholarship.[11] This emphasis on technological progress seems particularly risky given that the lack of empirical evidence 'supporting the existence of a decoupling of economic growth from environmental pressures on anywhere near the scale needed to deal with environmental breakdown'.[12]

Yet this does not mean we should not be scaling up investment in public research and development or 'dramatically accelerating' the deployment of the clean technologies we already have.[13] We recognise that frontloaded investment in renewables, green public transport and so on will inevitably contribute to growth and carry environmental impacts, but that these are necessary building blocks for a zero-carbon transition and can be done more or less equitably. Ultimately, it is the ideological and destructive model of GDP growth and capitalist accumulation that will have to be abandoned, to be replaced with radically different conceptions of well-being and human flourishing.[14]

On a related note, any drive towards a green and truly just transition must eschew the tendency of professional environmentalists to speak down to workers and communities with an individualistic, eco-austerian narrative of 'less'.[15] This is not only an insult to those who have suffered thirty years of eroding living standards, compounded by a decade of brutal austerity. It is also counterproductive in strategic

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11 One notable example is Aaron Bastani's *Fully-Automated Luxury Communism: A Manifesto* (London: Verso, 2019).

12 Timothée Parrique, Jonathan Barth, François Briens, Christian Kerschner, Alejo Kraus-Polk, Anna Kuokkanen and Joachim H. Spangenberg, *Decoupling debunked: Evidence and arguments against green growth as a sole strategy for sustainability* (July 2019), p.3.

13 Kate Aronoff, Alyssa Battistoni, Daniel Aldana Cohen and Thea Riofrancos, *A Planet to Win: Why We Need a Green New Deal* (London: Verso, 2019), p. 20.

14 Joseph E. Stiglitz, Jean-Paul Fitoussi and Martine Durand, *Beyond GDP: Measuring What Counts for Economic and Social Performance* (Paris: OECD, 2018); Jason Hickel, 'The sustainable development index: Measuring the ecological efficiency of human development in the anthropocene', *Ecological Economics*, Vol. 167 (January 2020).

15 Matt T. Huber, 'Ecological Politics for the Working Class', *Catalyst*, Vol. 3, No. 1 (Spring 2019), **https://catalyst-journal.com/vol3/no1/ecological-politics-for-the-working-class?fbclid=IwAR-2clvM4UZo97JYtrvX4vx2jj_P_7skuUk78nko8sQXge21oZ-aXkfWuEgc**.

political terms, and more likely to breed resistance than generate popular support. Although we do not spell out in precise terms what a Green New Deal and just transition should look like or how it should be implemented in the Irish context, we favour an expansive conception that envisages an economy and society wide transformation focused on positively improving the lives of citizens.[16] Vital work in this area is being done by organisations such as the Nevin Economic Research Institute (NERI), TASC, the National Economic and Social Council (NESC), by trade unions and civil society bodies, and by a range of academic and independent researchers across the island. This growing body of evidence remains sadly overlooked by Government and policy-makers, and underutilised by the movements that have a stake in climate action.

Much more needs to be done to ensure that these ideas are considered as part of a genuine dialogue between workers, communities and the institutions that have a demonstrable commitment to climate justice.

This leads to the question of how a just transition is to be realised, and what alignment of social forces will be required to realise it. While we do not set out to answer this question, it is increasingly apparent that there is no purely electoral route to climate justice. The recent general election in Ireland has resulted in a clearly defined left-right divide forming in the Irish parliamentary system for the first time in the state's history, and public opinion is increasingly coalescing in line with those ideological divisions. Parties of the left will have a major role to play in the coming fight for a green and just transition. But the efficacy of parliamentary struggles will be limited unless they are part of an organised and educated movement of political parties, trade unions and civil society – one that draws on the 'tacit knowledge' of workers and communities and exists in a state of 'permanent creative tension'.[17] This is the only plausible way to build and sustain a new, mass-based ecological politics across Ireland, north and south.

Far from pretending to offer a definitive blueprint, then, this research paper is a conceived as a modest contribution to a wide-ranging and fast-moving process. It is hoped that the ideas contained herein will be discussed, debated and critiqued by the movements and people that are striving for climate justice.

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16 See, for example, National Economic & Social Council (NESC), 'Addressing Employment Vulnerability as Part of a Just Transition in Ireland', NESC Report No. 149 (March 2020), pp. 46-60.

17 Hilary Wainwright, *A New Politics from the Left* (London: Verso, 2019). For an expansion of this concept in an Irish context, see Conor McCabe, *Irish Commonwealth: Trade Unions and Civil Society in the 21st Century* (November 2017).

2. Climate action in Ireland: A balance sheet

Leo Varadkar's Government won plaudits at home and abroad when Ireland became the second country after Britain to declare a climate and biodiversity emergency in May 2019. This historic declaration has been accompanied by gestures to promote the Government's coveted status as a 'global leader on climate action',[1] including divestment of Ireland's national development fund from fossil fuel companies. Varadkar also used his platform at last year's UN Climate Summit in New York to announce that a decision had been made to phase out oil exploration in Irish waters.[2] A policy statement issued shortly thereafter confirmed this decision,[3] drawing criticism from investors who felt that the Taoiseach had sounded a 'death-knell' for the oil industry in Ireland.[4]

Yet, despite these headline-grabbing gestures, Ireland continues to stand out as a European laggard on climate and environment. One of the highest emitters in the EU, Ireland ranks 41st of 57 countries in overall climate action terms[5] and 129th of 164 countries listed on the Sustainable Development Index.[6] A 9.5% drop in carbon emissions is expected this year due to the impact of the coronavirus and resulting lockdown, with GDP set to fall by about 13%.[7] Anything short of fundamental changes to the prevailing economic model will see emissions rebound to levels incompatible with current 2030 targets – not to mention the higher targets being considered by the European Commission. This would lead to annual fines of €600 million from the Commission, eroding the fiscal capacity of the state to drive emissions across all sectors in the longer term.

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1 'Speech by An Taoiseach and Leader of Fine Gael, Leo Varadkar TD, at the Fine Gael Parliamentary Party Meeting', *Fine Gael*, 14 January 2019, **https://www.finegael.ie/speech-by-an-taoiseach-and-leader-of-fine-gael-leo-varadkar-td-at-the-fine-gael-parliamentary-party-meeting/**.

2 'Ireland to end oil exploration, Taoiseach tells UN', *Irish Times*, 24 September 2019, **https://www.irishtimes.com/news/environment/ireland-to-end-oil-exploration-taoiseach-tells-un-1.4028591**.

3 Department of Communications, Climate Action and Environment (DCCAE) 'Policy Statement – Petroleum Exploration and Production Activities as part of Ireland's Transition to a Low Carbon Economy', 17 December 2019, **https://www.dccae.gov.ie/en-ie/natural-resources/publications/Documents/62/Policy%20Statement%20Petroleum%20Exploration%20and%20Production%20Activities.pdf**.

4 Daniel Murray, 'Varadkar has "finished" off the oil sector, says investor', *Business Post*, 22 December 2019, **https://www.businesspost.ie/climate-environment/varadkar-has-finished-off-irish-oil-sector-says-investor-aaa2ab0d**.

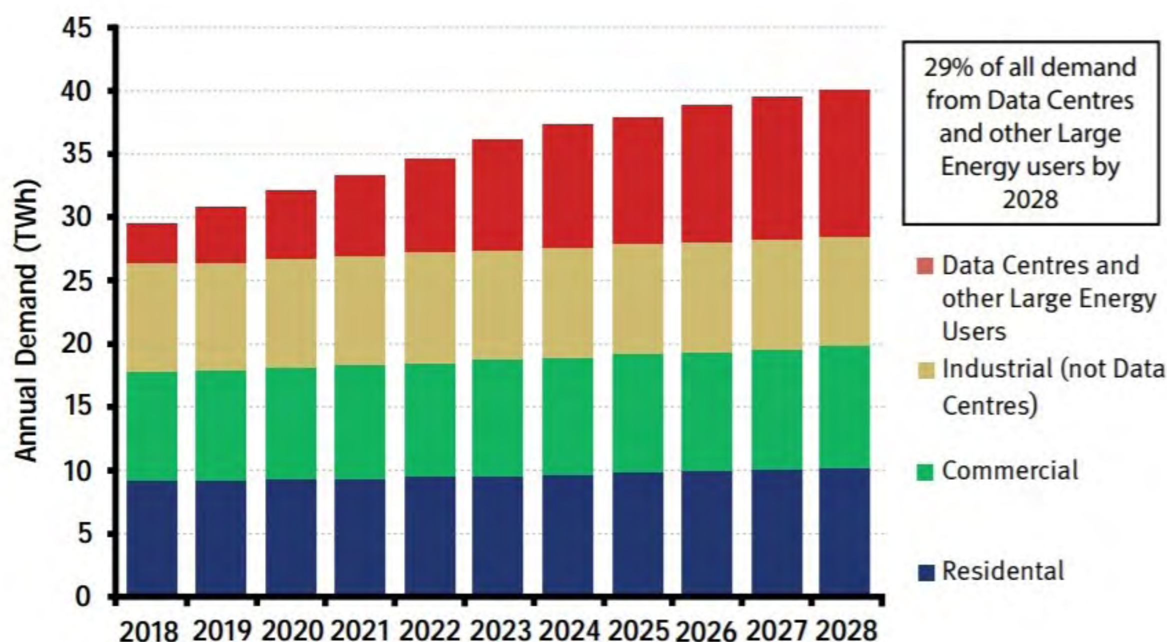
5 The Climate Change Performance Index 2020, **https://www.climate-change-performance-index.org/the-climate-change-performance-index-2020**.

6 Sustainable Development Index, **https://www.sustainabledevelopmentindex.org/**.

7 Kevin O'Sullivan, 'Carbon emissions in Ireland "to drop 9.5% this year" due to coronavirus slowdown', *Irish Times*, 3 July 2020, **https://www.irishtimes.com/news/ireland/irish-news/carbon-emissions-in-ireland-to-drop-9-5-this-year-due-to-coronavirus-slowdown-1.4294759**.

Ireland's slow progress on climate action is largely down to a lack of ambition and a series of policy failures. A fresh report from the Sustainable Energy Authority of Ireland (SEAI), for instance, has found that Ireland is not on track to meet its binding EU renewable energy target of 16% by 2020, and has made the second lowest progress of all 27 member states towards its targets. The report notes that Ireland is performing significantly worse than EU peers in the areas of renewable transport and heat, with 97% of energy for transport and over 93% of energy for heat coming from fossil fuel sources.[8] What makes this slow progress particularly worrying is the expected growth of large energy users such as data centres, which use huge volumes of water and electricity and could account for nearly one-third of total demand by 2028 (Figure 1). The economic benefit of data centres is negligible in terms of sustainable job creation, but Ireland is fast becoming the primary location in Europe for these facilities thanks to the country's generous system of tax breaks and Government supports.[9]

Figure 1. Projected share of energy demand per sector, for a Median Demand scenario (Source: Eirgrid & SONI, 2019)[10]



8 Sustainable Energy Authority of Ireland (SEAI), *Renewable Energy in Ireland: 2020 Update* (2020).

9 BroadGroup, *Data Centres Ireland: Market Report* (2017).

10 EirGrid and SONI, *All-Island Generation Capacity Statement 2019-2028* (2019), p. 24.

Critics of the Government's approach have also routinely highlighted the failure to rapidly and sufficiently transform the practices of established sectors such as agriculture, transport and large sections of industry. The Climate Action Plan issued by the Department of Communications, Climate Action and Environment (DCCAE) is the latest intervention to be branded a 'step-change', but fails to live up to such lofty rhetoric.[11] The Stop Climate Chaos Coalition of campaigning organisations has criticised the Plan for its lack of ambition, detail, strategic linkages and general aversion to challenging political choices.[12] Documents obtained by the Green Party also reveal that senior Government officials had serious reservations about the assumptions upon which the Plan was created, and that departmental proposals for a 5% reduction in the size of Ireland's cattle herd were ignored.[13] The Government's priority of continued growth in dairy and beef production for export not only represents a failure to seriously tackle the major vested interests fuelling agricultural emissions, which make up one-third of Ireland's total emissions and are set to increase until at least 2030.[14] It also means that small, low income farmers and their communities, who sit at the sharp end of inequality in the sector, will be locked into a future of unsustainable production and climate injustice.

In policy terms, the Government's approach to date has been to maintain business-as-usual in key economic sectors, while relying (unsuccessfully) on market mechanisms to encourage firms and households to reduce their carbon footprint. These policy and regulatory failures are twinned with a public investment agenda that stretches the definition of green expenditure, and is totally inadequate to meet the scale of the crisis (Table 1).

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11 Harry McGee and Jennifer Bray, 'Climate action plan welcomed as "substantial step-change"', *Irish Times*, 17 June 2019, **https://www.irishtimes.com/news/politics/climate-action-plan-welcomed-as-substantial-step-change-1.3928716**.

12 Stop Climate Chaos Coalition and the Environmental Pillar, *The new Climate Action Plan: Will it lead to a revolution in how we live?* (July 2019), **https://www.stopclimatechaos.ie/assets/files/pdf/will_the_new_climate_action_plan_deliver_the_revolution_the_minister_promised_report_july_2019.pdf**.

13 Claire McCormack, 'Internal departmental memos support 5% cut in national herd', *AgriLand*, 5 May 2020, **https://www.agriland.ie/farming-news/internal-departmental-memos-support-5-cut-in-national-herd/**.

14 Josh Gabbatiss, 'In-depth Q&A: Why Ireland is "nowhere near" meeting its climate change goals', *Carbon Brief*, 18 June 2019, **https://www.carbonbrief.org/in-depth-qa-why-ireland-is-nowhere-near-meeting-its-climate-change-goals**.

Table 1. Summary of climate-related measures contained in Project Ireland 2040 (Source: Irish Government, 2018)[15]

National Strategic Outcome (NSO)	**Exchequer** (€bn)	**Non-Exchequer** (€bn)	**Total** (€bn)
2. Enhanced Regional Accessibility			**7.3**
of which: M20	0.9		
National Roads	5.7		
3. Strengthened Rural Economies and Communities			**8.8**
of which: Regional and Local Roads	4.5		
4. Sustainable Mobility			**8.6**
of which: Dart Expansion	2.0		
Metro Link	3.0		
BusConnects	2.4		
6. High-Quality International Connectivity			**4.8**
of which: Airports		3.8	
Ports		1.0	
8. Transition to a Low-Carbon and Climate-Resilient Society			**21.8**
of which: Energy Efficiency – housing retrofit	3.0		
Energy Efficiency – public buildings	0.8		
Boiler replacement	0.7		
Support scheme for renewable heat	0.5		
Climate Action Fund		0.5	
Electric Vehicles	0.2		
Flood Defences	1.0		
Energy Investment (renewables, interconnection, etc.)		13.7	
9. Sustainable Management of Water and other Environmental Resources			**8.8**
of which: Irish Water	6.8		

15 Adapted from the Government of Ireland's *Project Ireland 2040: National Development Plan 2018-2027* (2018), pp. 21-22. See also Government of Ireland, *Investing in the Transition to a Low-Carbon and Climate-Resilient Society 2018-2027* (2018).

The main problems with the commitments outlined in the Government's National Development Plan (NDP) centre around the volume, balance and policy bias of projected expenditure. The €30 billion devoted to climate change response (Priorities 4 & 8) is not only insufficient to support an ambitious low-carbon policy, it is not even thought to represent new Exchequer spending. Rather, as the Parliamentary Budget Office puts it, 'the Plan pertains to integrate climate response into existing spending plans and policy'.[16] In addition, the balance of projected expenditure is weighted heavily in favour of a business-as-usual approach in transport, aviation and agriculture. A major expansion of Ireland's rail network does not appear to be on the agenda, despite heavy goods vehicles constituting the single biggest contributor to Ireland's transport emissions. References to land, biodiversity and agriculture are sparse and vague, eclipsed by the strategic economic priority of growing the agri-foods industry. Even the €6.8 billion allocated to Irish Water only comes halfway to meeting the estimated €13 billion infrastructure deficit resulting from long-term underinvestment and austerity cuts.[17]

The Programme for Government (PfG) agreed by the Greens and Ireland's two historic right-wing parties, Fine Gael and Fianna Fáil, has been accurately described as a 'greener business as usual'.[18] The Green Party has secured a modest reallocation of NDP spending away from new roads towards walking and cycling infrastructure, but even this will fail to establish Ireland as a leader when it comes to investment in these areas. Much of what is being claimed as a win for climate action is already contained in the existing Climate Action Plan and the previous Government's proposals for a Climate Action Bill.[19] The agriculture, haulage and aviation sectors are left virtually untouched by the PfG, while the Green Party's red line demand of 7% annual emissions reductions will be deferred until the second half of the decade – after the end of this Government term – and there is no indication of where these cuts will come from[20]. Already the vague commitment to end the importation of fracked gas has begun to unravel, with Eamon Ryan, the Minister in charge, unable to confirm that it will no longer be part of Ireland's energy mix or that associated infrastructure projects would be scrapped. Workers' rights, the cornerstone of a genuine just transition, do not feature in any meaningful sense, and revenue-raising measures are to centre on regressive consumption taxes over targeting corporate and individual wealth. Anything remotely positive that could be taken from the PfG will only be 'considered', 'examined', 'reviewed' or bundled into commissions where they can be diluted or killed off entirely.

Worryingly, the PfG appears to signal a new era of eco-austerity at a time when huge levels of public investment are needed in housing, healthcare, childcare, public transport and a green and just recovery from coronavirus. The Government's future plans will become clearer during the Budget 2021 process. But the so-called July Stimulus gives some indication of the direction of travel, representing a series of reheated spending commitments coupled with

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16 Parliamentary Budget Office, 'The Climate Action Plan – A review of potential exchequer implications', PBO Publication 38 of 2019 (September 2019), **https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-07-09_the-climate-action-plan-a-review-of-potential-exchequer-implications_en.pdf**.

17 Joint Committee on Housing, Planning and Local Government debate, Irish Water: Discussion, 22 February 2018, **https://www.oireachtas.ie/en/debates/debate/joint_committee_on_housing_planning_and_local_government/2018-02-22/3/**.

18 Tate Donnelly, Julie O'Donoghue, Seán McCabe and Saoirse McHugh, 'This is not a Green New Deal – It is greener business as usual', Open letter to Green Party members, 21 June 2020, *Irish Broad Left*, **https://irishbroadleft.com/2020/06/21/this-is-not-a-green-new-deal-it-is-greener-business-as-usual/**.

19 DCCAE, Heads of Climate Action (Amendment) Bill, **https://www.dccae.gov.ie/en-ie/climate-action/legislation/Documents/5/Heads_of_Climate_Amendment_Bill.pdf**.

20 Emma Clancy, 'Greenwashing Austerity', *Irish Broad Left*, 29 June 2020, **https://irishbroadleft.com/2020/06/29/greenwashing-austerity/**.

www.irishtimes.com

poorly conceived VAT cuts and 'deadweight' incentives.[21] The likelihood that Ireland will be a net contributor to the EU recovery package not only has the disadvantage of financial loss, it also means that any funds received will be tied to the harsh conditionality of the European Semester budgetary procedure. More significantly, the PfG explicitly commits the Government to a medium-term strategy of deficit reduction and adherence to the orthodoxy of balanced budgets. The Irish Fiscal Advisory Council has indicated that this coming austerity drive could amount to €14 billion over the 2023-25 period, which would be equivalent to average year-on-year 'adjustment' from 2008 onwards.[22]

At the time of writing, it is uncertain whether this Government will make it to 2023. The fragile three-party coalition appears to be lurching from one crisis to another, with senior Green Party TDs voting against the Government just one month into the new mandate. The recent Supreme Court ruling that the Government's National Mitigation Plan is inadequate to meet its own climate goals spells for even tougher times, since the Plan will now have to be totally remade in order to comply with the law.[23] It is also possible that the Government's economic plans will go to waste, if worrying trends of increased COVID-19 cases develop into a full-blown second wave. Either way, the threat of austerity and an unjust recovery is needs to be guarded against, and an alternative vision cultivated and popularised. This alternative path would necessarily involve transformative investment in high quality public services, climate adaptation and mitigation, and an 'employment enhancing transition to a low carbon economy'.[24] But how could this be delivered by a Government with the political will to do so? What would be the main components of a state-led investment strategy? It is to these questions that we turn in the next section.

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21 Michael Taft, 'Stimulus, Deadweight, and Reheats', *Notes on the Front*, 28 July 2020, **https://notesonthefront.typepad.com/politicaleconomy/**.

22 Special Committee on Covid-19 Response debate, 'Covid-19: Impact on the Fiscal Position', 16 June 2020, **https://www.oireachtas.ie/en/debates/debate/special_committee_on_covid-19_response/2020-06-16/3/**.

23 'Supreme Court rules in favour of Climate Case Ireland', *Green News.ie*, 31 July 2020, **https://greennews.ie/supreme-court-rules-in-favour-of-climate-case/**.

24 Ciarán Nugent and Paul Goldrick-Kelly, *Investing in a Just Transition* (January 2020), p. 2, **https://www.nerinstitute.net/sites/default/files/research/2020/Investing%20in%20a%20Just%20Transition..pdf**.

3. State-led and pro-public investment

The banking crisis which arose in Ireland from 2008 has been the subject of much discussion. To summarise, a long-term indigenous policy of promoting speculative lending and investment left Ireland's banking system fatally exposed to the global crisis triggered by the collapse of Lehman Brothers. As the crisis moved to Ireland, the Government decided unilaterally to issue a blanket guarantee covering the deposits and liabilities of the six biggest Irish banks. Although this move surprised many across Europe, it made sense from the economic class perspective of protecting the financiers and speculators who had been empowered over decades and now stood to lose out from the system in which they had gambled. Once these private debts were made sovereign and transformed into a spiralling public debt crisis, the Government was priced out of the global bond market and forced to secure a huge bailout from the Troika.[1]

Bailout conditions twinned with the EU's post-crisis reform of its fiscal rules committed the indebted governments of southern Europe to embark on a disastrous path of deficit and public debt reduction to 3% and 60% of GDP respectively. In practice, this ushered in a brutal phase of austerity that compounded the recession's initial social and economic impact. Successive Irish Governments decided to cut the deficit faster and deeper than was required under EU rules, while pursuing an economic growth strategy based on depressed wages, low taxes, overreliance on foreign-owned exporters and a return to property speculation. These decisions came at the cost of further reducing Ireland's chronically low levels of public spending, now well below other high-income EU countries both as a proportion of GDP and GNI*.[2] They also had the lasting consequence of a slow, uneven and largely hollow recovery which has exacerbated underlying inequalities and encouraged the re-emergence of systemic problems in the Irish economy.[3]

Despite its handling of the crisis, and thanks largely to an unexpected boost in corporate tax receipts, the Irish Government was able to boast a budget surplus in 2019. In the narrow terms laid down by the EU fiscal rules, this put Ireland in a strong position relative to most countries across Europe.

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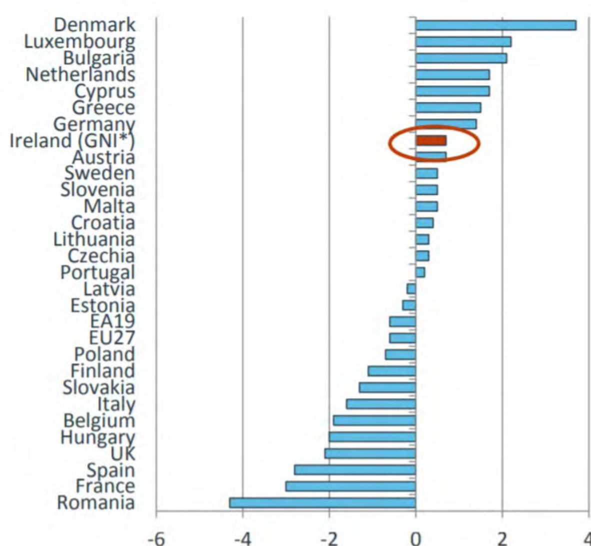
1 Conor McCabe, *Sins of the Father: Tracing the Decisions that Shaped the Irish Economy* (2nd edition) (Dublin: History Press, 2013), Chapter 5.

2 Eurostat, Total general government expenditure (% of GDP), **https://ec.europa.eu/eurostat/databrowser/view/tec00023/default/table?lang=en**. Modified GNI or GNI* is a new measure of national income which strips out the distorting effects of multinationals registered in Ireland for tax purposes.

3 William K. Roche, Philip J. O'Connell and Andrea Prothero (eds.), *Austerity & Recovery in Ireland: Europe's Poster Child and the Great Recession* (Oxford: Oxford University Press, 2017); Michael Byrne, 'Housing market financialisation, neoliberalism and everyday retrenchment of social housing', *EPA: Economy and Space* (online), 24 February 2019, **https://journals.sagepub.com/doi/full/10.1177/0308518X19832614;** Dan Bailey and John Barry, 'The hollowness of GDP: The case of Ireland', *Sheffield Political Economy Research Institute*, 21 September 2016, **http://speri.dept.shef.ac.uk/2016/09/21/the-hollowness-of-gdp-the-case-of-ireland/**.

Figure 2. Government deficit/surplus (% of GDP/GNI), 2019 (Source: NTMA, 2020)*[4]



The state's debt-to-GDP ratio fell below the 60% threshold to the lowest level in a decade, well below the eurozone average and lower than 'frugal' Germany and Austria. Public debt as a proportion of GNI* also fell to 99%, having reached a peak of 166% in 2012. This figure appears elevated by international comparison, but three important points need to be emphasised here. First, nearly a quarter of Ireland's public debt is in fact socialised private banking debt from the last crisis, giving a misleading impression of government 'profligacy'. Second, Ireland's public debt level is no higher than in countries such as France nor is it particularly high in historical terms. Finally, as Emma Clancy has rightly noted, 'The level of debt is not so important as long as the state is able to roll over its debt (by borrowing more) and continue servicing it (paying the interest owed).'[5] All other things being equal, debt sustainability for any given country hinges upon its income, economic capacity, level of productive investment and the building of a strong tax revenue base.

According to the ESRI, the impact of the lockdown on Government spending and tax receipts means that a deficit of €27 billion or 8% of GDP is now likely by the close of 2020, while the public debt is expected to rise to 76% of GDP or 127% of GNI*.[6] Whether this becomes problem will depend on the length of the pandemic and search for a vaccine, the severity and duration of the recession globally, the unfolding EU context and, ultimately, the decisions taken by the Government. In the context of weak private sector investment, the biggest threat to a just and green recovery is a Government that underwrites largely unproductive and unsustainable profit-seeking strategies while implementing regressive tax measures and real cuts to public expenditure. There has never been a more urgent need or stronger case for major state-led investment in key areas, and this is eminently possible even under the current circumstances.

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4 NTMA Investor Presentation (June 2020), **https://www.ntma.ie/uploads/general/Investor-Presentation-June-2020.pdf**.

5 Emma Clancy, *Discipline and Punish: End of the road for the EU's Stability and Growth Pact?* Published by Martin Schirdewan MEP (February 2020), p. 42, **https://emmaclancy.files.wordpress.com/2020/02/discipline-and-punish-eu-stability-and-growth-pact.pdf**.

6 ESRI, *Quarterly Economic Commentary: Summer 2020* (May 2020), pp. 2, 32, **https://www.esri.ie/system/files/publications/QECSUM2020%20%281%29.pdf**.

3.1 Leading with direct state investment

From its establishment in 1990, the National Treasury Management Agency (NTMA) has gradually assumed a primary role as a financial agent for the Irish state, including the core functions of public debt management and Government borrowing. The principal responsibility of the NTMA is to raise funds in accordance with the Government's Exchequer Borrowing Requirement, itself determined by the Government's fiscal position and spending plans. Since 2014 the NTMA has been able to take advantage of falling interest rates to issue long-term bonds, replacing high cost debt with cheaper new issuance in order to reduce its debt servicing costs. During the 2014-18 period, total Irish Government bond issuance amounted to €66 billion, of which nearly half was purchased under the ECB's quantitative easing (QE) programme.

Table 2. Irish Government bond issuance, 2014-18 (Source: Central Bank of Ireland, 2019)[7]

Year	Amount issued (€bn)	Weighted average maturity (yrs)	Average weighted yield (%)
2014	11.75	12	2.48
2015	13	18	1.51
2016	8.25	10	0.82
2017	15.75	12	0.89
2018	17.25	12	1.07

An additional €14 billion in medium-to-long term debt was issued last year, helping to further reduce the cost and extend the average maturity of Irish Government debt. The NTMA's revised funding plan for 2020 intends to raise additional funds of €20-24 billion to meet the cost of the Government's measures during the pandemic, €20 billion of which has been raised to date.

This includes sovereign bonds that were massively oversubscribed and sold at negative yields.[8] These favourable terms have been obtained despite increased borrowing requirements and depressed economic conditions, Brexit uncertainty and political instability.

Faced with the prospect of long-term economic stagnation, prolonged low inflation and tightening financial conditions, the interventions of EU institutions have been a major factor in maintaining borrowing costs at the low levels that pertained prior to the crisis.

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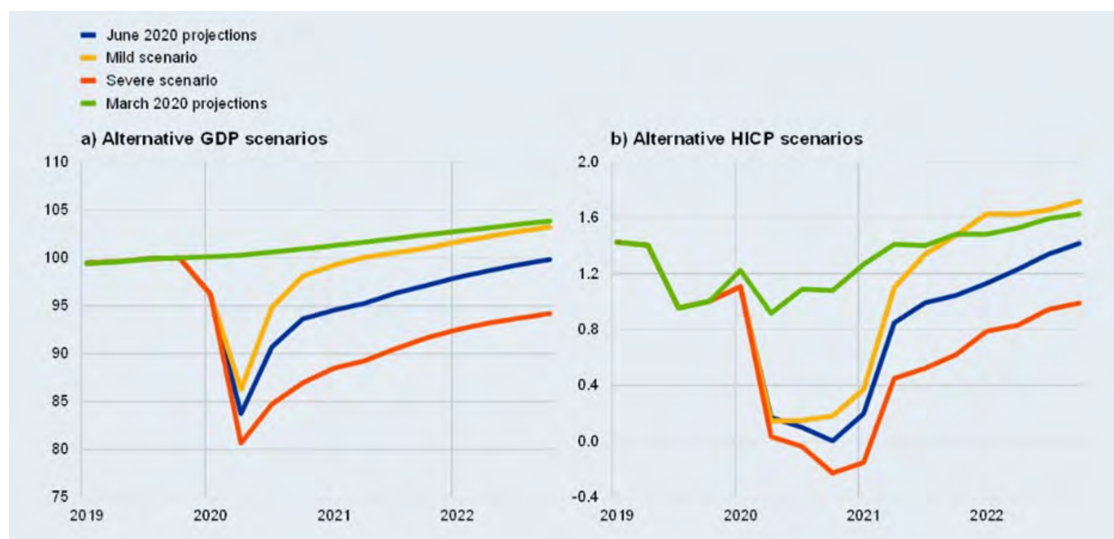
7 John Larkin, P.J. Anderson and Sean Furlong, 'The Irish Government Bond Market and Quantitative Easing', Central Bank of Ireland Quarterly Bulletin 2 (April 2019), **https://www.centralbank.ie/docs/default-source/publications/quarterly-bulletins/quarterly-bulletin-signed-articles/the-irish-government-bond-market-and-quantitative-easing-(larkin-anderson-and-furlong).pdf**.

8 NTMA Press Release, 'NTMA raises €6 billion from sale of new 10-year benchmark bond', 9 June 2020, **https://www.ntma.ie/news/ntma-raises-6-billion-from-sale-of-new-10-year-benchmark-bond**; 'Ireland sells €1.5 billion of bonds maturing in 2027, 2030 and 2050 by auction', 9 July 2020, **https://www.ntma.ie/news/ireland-sells-1-5-billion-of-bonds-maturing-in-2027-2030-and-2050-by-auction**.

Figure 3. Alternative scenarios for real GDP and HICP inflation in the euro area (Source: ECB, 2020) [9]



Among the most significant of these interventions is the European Commission's decision to fund its recovery plan by issuing common federal bonds, although true to its neoliberal inclinations, it is opting to borrow from capital markets rather than utilise the firepower of the ECB. For its part, the ECB has frozen interest rates and offered forward guidance that it expects key rates to remain 'at their current or lower levels' until the inflation environment improves. This has been accompanied by an €120 billion increase in the existing QE programme and, most significantly, the introduction of a new Pandemic Emergency Purchase Programme (PEPP), which has effectively removed limits on the amount of sovereign bonds the ECB can buy. The Programme has already been doubled from its original €750 billion to €1.35 trillion, and extended until June 2021 at the very earliest.[10]

Even these measures are unlikely to prevent a re-emergence the of the eurozone's enduring problems, at the centre of which lie the diverging fortunes of the northern core and southern periphery.[11] A fresh spike in coronavirus cases has prompted some countries to impose new travel restrictions, threatening an even bigger unemployment crisis in the tourism-dependent states of southern and Mediterranean Europe. It is almost certain that EU leaders will be back at the negotiating table once the extent of this crisis becomes clear. The PEPP could also be expanded for a second time if, as expected, the ECB's existing commitment fails to sufficiently alleviate the financial risks faced by the corporate and public sectors.

Thus far the Irish state has done more to uphold the ideological orthodoxy and economic interests governing the system than to challenge them. Moving beyond underwhelming and unsustainable solutions will require, among other things, an Irish Government more willing to engage in solidarity with southern member states and put its weight behind radical demands, using all available leverage points to pressure for change. This would involve agitation at the European Commission, European Council, Eurogroup and Ecofin Council for reforms such as debt relief, fiscal transfers, a real Green New Deal and recovery plan that represents more than a mere 'sticking plaster' for deeper structural failings.[12]

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9 ECB Staff Macroeconomic Projections, 4 June 2020, **https://www.ecb.europa.eu/pub/projections/html/ecb.projections202006_eurosystemstaff~7628a8cf43.en.html#toc1**.

10 ECB Press Release, 'Monetary policy decisions', 4 June 2020, **https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200604~a307d3429c.en.html**.

11 Mark Copelovitch, '"None of the above" is no longer an option for the Eurozone', *LSE EUROPP Blog*, 21 April 2020, **https://blogs.lse.ac.uk/europpblog/2020/04/21/none-of-the-above-is-no-longer-an-option-for-the-eurozone/**; Emma Clancy, 'The Eurozone's Coronavirus Debt Crisis', *Tribune*, 10 April 2020. **https://tribunemag.co.uk/2020/04/the-eurozones-coronavirus-debt-crisis**.

12 Emma Clancy, 'Europe's Sticking Plaster', *Tribune*, 29 May 2020. **https://tribunemag.co.uk/2020/05/europes-sticking-plaster**.

This would also mean pushing for a total redefinition of the ECB's role, particularly as its interventions both during the last crisis and this time around have shattered the illusion of an independent central bank acting strictly to maintain price stability. The Public Sector Purchasing Programme (PSPP) is designed to get around the EU treaty stipulation that the ECB cannot engage in direct monetary financing of member states. But this is merely a sleight of hand trick that provides undue benefits to private sector actors, and only strengthens the argument that the ECB should directly fund governments in the same way the Bank of England and Federal Reserve have been doing.[13] In other areas, too, the need for a rethink of the ECB's mandate have become clear. Just as the last QE programme boosted the asset prices of the rich, so the new Corporate Sector Purchase Programme (CSPP) suffers from a lack of conditionality prohibiting the use of proceeds for dividend payments and share buybacks. Significantly, the CSPP is also laden with a 'brown bias' that runs counter to the Paris Agreement and has enabled some of the biggest and most profitable fossil fuel companies to take advantage.[14] Equipping the ECB with an unambiguous secondary mandate linked to the EU's own social-ecological objectives can help to direct its existing asset holdings and future interventions towards investment that supports a green and just transition across the continent.[15]

While pursuing these changes at a strategic EU level, there exists considerable scope for a country in Ireland's position to debt finance an ambitious green public investment strategy, creating the infrastructure and public assets for a decarbonised and climate resilient economy and society. With the Government is in a 'healthy position' to meet its short-term, one-off funding requirements,[16] a combination of strong credit ratings, low bond yields and one of the longest maturities in Europe means it is also well placed to access low-cost borrowing from the ECB and other public investors.

To date the Irish Government has raised €5 billion as part of its Irish Sovereign Green Bond Framework, which commits the state to using the proceeds in alignment with the SDGs. The jury is out on the green credentials of this Framework, particularly as it is linked to the Government's dubious understanding of climate action and not yet subject to a common, public green bond standard.[17] However, given the exponential growth of the green bond market, it has become a valuable tool that could be utilised in combination with long-term, fixed-rate Government bonds. A basic example of this is provided below:

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13 Paul de Grauwe, 'The ECB Must Finance COVID-19 Deficits', *Project Syndicate*, 18 March 2020, **https://www.project-syndicate.org/commentary/ecb-needs-to-embrace-covid19-monetary-financing-by-paul-de-grauwe-2020-03?barrier=accesspaylog**.

14 Javier Solana, 'A reminder from the courts for the European Central Bank to take climate change seriously', *LSE Grantham Research Institute on Climate Change and the Environment*, 20 May 2020, **https://www.lse.ac.uk/granthaminstitute/news/a-reminder-from-the-courts-for-the-european-central-bank-to-take-climate-change-seriously/**; InfluenceMap, 'The ECB's Pandemic-related Corporate Bond Purchasing', 15 April 2020, **https://influencemap.org/report/The-ECB-and-Pandemic-Bonds-ece9791d5425bf38b78df95a8376b358**.

15 AfterCorona, 'Strengthening the Secondary Mandate', 12 June 2020, **https://www.ideasaftercorona.de/strengthening-the-secondary-mandate/**.

16 NTMA Press Release, 'NTMA raises €6 billion from sale of new 10-year benchmark bond'.

17 Filipe Wallin Albuquerque, 'Ireland's Green Bond and the Quest for Additionality', *Nordsip*, 24 October 2019, **https://nordsip.com/2019/10/24/irelands-green-bond-and-the-quest-for-additionality/**.

Debt financing Irish Government investment: A worked example

1. The NTMA issues a combination of Government and sovereign green bonds totalling €30 billion, with a maturity date of 2050 or beyond.

2. Strong demand and falling yields for Irish sovereign bonds enables the NTMA to secure favourable terms. There is no sure-fire way to free oneself from the vagaries and disciplinary influence of capital markets. But the best way to guard against these threats is for the bond sale to be coordinated with the ECB and/ or other public sector investors. Through the NTMA, the Government retains absolute discretion to decide who participates in the market to buy or sell the bonds, and to accept or reject any bids for them.[18]

3. €30 billion is added to the national debt; the interest of €180 million (0.6% x €30 billion) factors into the Government's annual budget position.

The proceeds of €30 billion would then go towards rapidly scaling up the Government's commitments to real climate action, establishing an adequate just transition fund and financing an ambitious Green New Deal that incorporates a major retrofitting and green public housing programme delivered to the highest environmental standards. This would mean socially useful, green investment in the real economy and the creation of up to 100,000 net jobs in key industries alone .[19] Frontloading this investment would also put Ireland on an economic growth trajectory that reduces the debt-to-GDP/GNI* ratio and generates tax revenues to pay down the borrowing costs.[20] This argument has been strengthened by former IMF chief economist Oliver Blanchard, who notes that interest rates over the past fifty years have been lower than GDP growth rates.[21] In other words, state borrowing may come at no additional fiscal cost in the long run.

Even if this argument fails to totally convince, it should be noted that the COVID-19 crisis has resulted in a temporary suspension of the EU fiscal rules to allow for deficit spending, which is likely to continue into the foreseeable future. It is uncertain whether the EU will be able to restore pre-crisis forms of fiscal governance, the 'disciplinary logic' of which had begun to break down long before the pandemic hit.[22] Not only have most member states breached the fiscal rules at

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18 NTMA, *The Primary Dealer System in Irish Government Bonds* (January 2018), **https://www.ntma.ie/download/government_bonds/The-Primary-Dealer-System-in-Irish-Government-Bonds-Including-Issuance-January-2018.pdf**.

19 IMPACT, *A just transition to a low-carbon economy: Implications for IMPACT and its members* (2017), p. 17, **https://www.iiea.com/ftp/Publications/2017/IMPACT%20JustTransition.pdf**

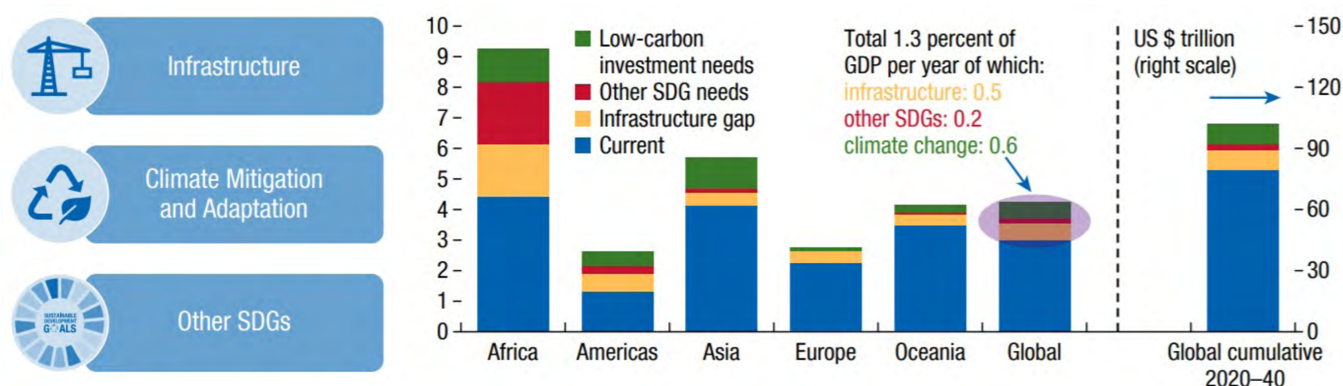
20 Michael Taft, 'Beyond Fiscal Clichés', *Notes on the Front*, 21 April 2020, **https://notesonthefront.typepad.com/politicaleconomy/2020/04/beyond-fiscal-clich%C3%A9s.html**

21 Olivier Blanchard, 'Public Debt: Fiscal and Welfare Costs in a Time of Low Interest Rates', Peterson Institute for International Economics, Policy Brief 19-2 (February 2019), **https://www.piie.com/system/files/documents/pb19-2.pdf**.

22 Scott Lavery, 'Global Capitalism and Labour's Economic Programme', *Verso Blog*, 7 December 2018, **https://www.versobooks.com/blogs/4154-global-capitalism-and-labour-s-economic-programme**

some point over the past ten years, we are now entering into a period where not one of them will be able to run the surplus necessary to keep their debt ratios in check. These are among the reasons the fiscal rules are facing mounting criticism from member states, EU institutions and international bodies alike. A damning report commissioned by Die Linke MEP Martin Schirdewan has established that the rules are arbitrary and economically unsound, politically biased and harmful to the prospects of decent work, economic growth and public service delivery. They also, the report concludes, make it 'impossible' to deliver the public investment necessary for a socially just climate transition, and must therefore be 'dismantled'.[23] This becomes abundantly clear when we consider the IMF's estimate that additional global investment needs for infrastructure, climate mitigation and other SDG goals amount 1.3 % of global GDP per annum or, on a cumulative basis, exceeding $20 trillion for 2020-2040 (Figure 4).

Figure 4. Global investment needs for infrastructure, climate change and other SDGs (% of annual regional GDP; trillions of US dollars, right scale) (Source: IMF, 2020)[24]



As Simon Wren-Lewis, former advisor to British Labour Party Shadow Chancellor John McDonnell, puts it: 'Humanity will not come to an end if we double debt to GDP ratios, but it could come to an end if we fail to combat climate change.'[25]

23 Clancy, *Discipline and Punish*, pp. 9, 57.

24 IMF, *Fiscal Monitor: Policies to Support People During the COVID-19 Pandemic* (April 2020), p. 29, **https://www.imf.org/en/Publications/FM/Issues/2020/04/06/fiscal-monitor-april-2020**.

25 Simon Wren-Lewis, 'The case for funding a Green New Deal through government debt', *New Statesman*, 18 February 2019, **https://www.newstatesman.com/politics/economy/2019/02/case-funding-green-new-deal-through-government-debt**

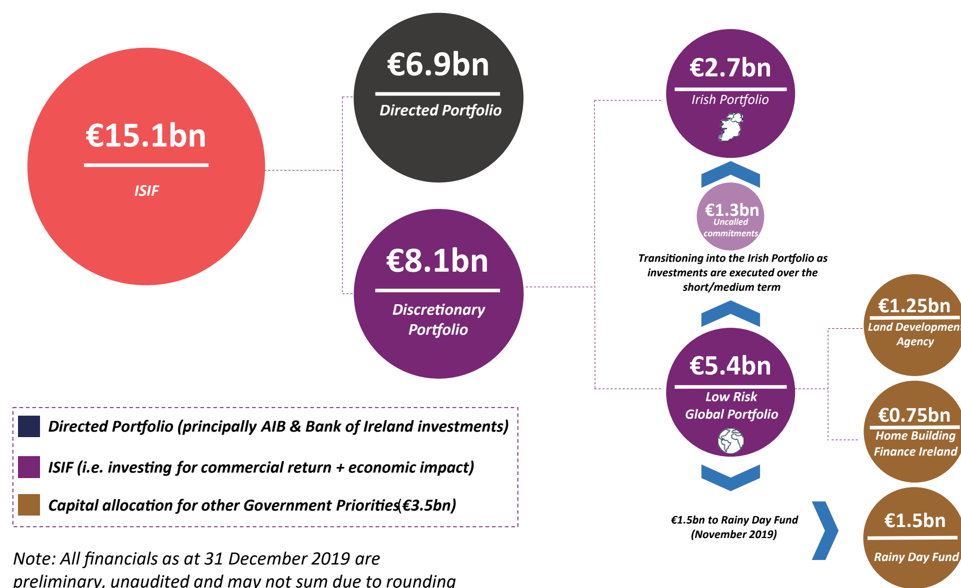
3.2. Expanding pro-public investment capacities

An economy and society wide green transformation cannot be done through debt financed investment alone, but will require the coordination of all the resources and policy levers that fall under the direction and influence of the state. Here we look at just some of the options that could be pursued by a progressive Government as a means of putting state-led investment on a sustainable and more democratic footing.

3.2.1 Repurposing the Irish Strategic Investment Fund

The Ireland Strategic Investment Fund (ISIF), managed by the NTMA, is a sovereign investment fund with a 'double bottom line' mandate to make a commercial return of 4% and support economic activity and employment in Ireland. The ISIF is preceded by the National Pension Reserve Fund (NPRF), which had approximately €21 billion in assets in 2007 before it was raided by the Government to pay off the creditors of private Irish banks. Much of the €21 billion was poured into a financial black hole and lost to the public. What remained has ended up in the NTMA's Directed Portfolio (mainly the state's share investments in AIB and Bank of Ireland), which is managed by the ISIF under the direction of the Minister for Finance. The Discretionary Portfolio, created upon the ISIF's inception in 2014, is designed to be a long-term commercial development fund with a shifting focus towards Irish investments (Figure 5).

Figure 5. Overview of the ISIF, end-2019 (Source: NTMA, 2020)[26]



Over the course of its first investment programme, the ISIF committed a total of €4.1 billion across a range of sectors. The biggest portion of this went to real estate, including a €325 contribution to the joint venture property development lender Activate Capital.

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26 NTMA, 'Ireland Strategic Investment Fund FY 2019 Update', 29 February 2020, **https://isif.ie/uploads/publications/ISIF-FY-2019.pdf**

Table 3. Allocation of ISIF Irish Portfolio, end-2018 (Source: Parliamentary Budget Office, 2019)[27]

Sector	€m	Share of Portfolio (%)
Real Estate	842	20.48
SMEs	789	19.19
Venture Capital	622	15.13
Water	450	10.95
Infrastructure	396	9.63
Energy	240	5.84
Direct Equity	238	5.79
Food & Agriculture	206	5.01
Other	192	4.67
Innovation	136	3.31
Total	**4,110**	**100**

Against the backdrop of an uneven recovery, the ISIF was refocused with a view to better addressing the Government's key objectives. The Fund's revised investment strategy is guided by Project Ireland 2040 to invest in five priority areas: regional development; housing; indigenous businesses; climate change; and the sectors at risk from Brexit. The ISIF is also required by legislation (Fossil Fuels Divestment Act 2018) to divest from fossil fuel activities. However, there remain major concerns regarding the ISIF's strategic orientation in the context of its commercial return mandate. The breakdown of investments for 2019 shows that nearly half (€247 million) of total investment was directed towards real estate, including €47 million for Grade A office space and £8 million for a co-living development described as 'Dickensian in nature' by the Green Party. By contrast, just €34 million went towards climate action.[28] This brought the ISIF's total investment in climate-related activities to €349 million, compared with €1.1 billion in real estate.

These tendencies have been reinforced by the focus of side-funds established by the ISIF in recent years (see Figure 5 above). The Land Development Agency, for example, has been characterised as 'another NAMA' due to its commercial status, lack of powers for compulsory purchases, reliance on private finance and in-built bias against the construction of public housing on public land.[29] Another company, Home Building Finance Ireland, was established under the ownership of the Minister for Finance to help fund housing construction by small builders, but has quickly extended its support to high-profile developers while achieving very little by way of delivering social and real affordable homes. If anything, the Government's use of the ISIF has become emblematic of its faith in market-based solutions to an escalating housing crisis, channelling public funds into the pockets of landlords and developers while helping to fuel rent increases and speculative house price inflation.

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27 Parliamentary Budget Office, 'An overview an analysis of the Ireland Strategic Investment Fund', *PBO Publication 7 of 2019* (February 2019), p. 7, **https://data.oireachtas.ie/ie/oireachtas/parliamentaryBudgetOffice/2019/2019-02-14_an-overview-and-analysis-of-the-ireland-strategic-investment-fund_en.pdf.**

28 NTMA, 'Ireland Strategic Investment Fund FY 2019 Update'; Gavin Daly, 'State fund backs Batra's "Dickensian" co-living project in Dun Laoghaire', *The Sunday Times*, 12 January 2020, **https://www.thetimes.co.uk/edition/ireland/state-fund-backs-bartra-s-dickensian-co-living-project-in-dun-laoghaire-g86rh7l-nv**.

29 Eoin Ó Broin, 'Voices: Will the Land Development Agency become another NAMA?', *An Phoblacht*, 6 June 2020, **https://www.anphoblacht.com/contents/27828**.

Eugene O'Callaghan, the director of ISIF | FORA.ie

More recently, a €2 billion Pandemic Stabilisation and Recovery Fund (PSRF) was launched to support large enterprises that have been negatively impacted by COVID-19. This scheme, however, has a number of serious shortcomings. The first arises from the ISIF's commercial return mandate, which may result in the firms most severely affected not receiving the support they need. Together with the inadequacy of supports for SMEs, this in-built flaw could lead to an increasing concentration of ownership and wealth as struggling businesses go to the wall or are acquired by larger corporate interests and private equity funds. Another equally, if not more worrying feature of the PSRF is that eligible businesses do not 'currently need to align' with existing priority themes such as climate change.[30] This represents an astounding lack of vision and yet another squandered opportunity to tilt parts of the real economy towards green activities.

The ISIF has pledged to target €500 million of investments in line with the Government's Climate Action Plan over its current investment cycle. How much of this will be new investment and what shape it takes remains to be seen. But without substantial changes to its mandate and strategic focus the ISIF will continue to play, at best, a contradictory role with regards to climate action and societal needs. With approximately €5.9 billion now sitting in the Fund's Discretionary Portfolio, there is a strong case for rapidly deploying these resources towards the emergencies of the here and now. To take just one obvious example, a major green public housing and national retrofitting programme would simultaneously address important social objectives, climate goals and deliver a steady return for the Exchequer. There is also merit in proposals for the establishment of a state holding company or just transition vehicle, to be capitalised using ISIF funds.[31]

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30 NTMA, 'ISIF Pandemic Stabilisation and Recovery Fund (PSRF)', 2 May 2020, **https://isif.ie/uploads/publications/PSRF-GUIDE-PUBLISHED.pdf**.

31 Joe Guinan, 'Create a state holding company to prevent the leveraged buyout of the real economy', *The Next System Project*, 26 May 2020, **https://thenextsystem.org/learn/stories/create-state-holding-company-prevent-leveraged-buyout-real-economy;** Mathew Lawrence, Adrienne Buller, Joseph Baines and Sandy Hager, 'Commoning the Company', *Common Wealth*, 17 April 2020, **https://www.common-wealth.co.uk/reports/commoning-the-company**.

This entity would play a two-fold role in the Irish economy:

- Acquire struggling SMEs to prevent liquidations or predatory buy-outs, and relaunch them as green worker- or community-owned co-operative enterprises when economic conditions begin to improve.
- Take equity stakes in larger companies in need of financial assistance, with the objective of democratising capital and strong conditionality to align company behaviour with a zero-carbon pathway.

These ideas are not prescriptive. The point here is that there are a number of different ways the ISIF could be put to better use, and the Government could choose to repurpose the Fund even if it were to require legislative changes. That is, after all, how it was created in the first place.

3.2.2 A state investment bank and public banking system

Consideration of the role that could be played by the ISIF is closely linked to another long-mooted idea: a state or green investment bank. Originating in the post-war reconstruction of Europe, state investment banks (SIBs) have grown in number and influence in the last number of decades. SIBs have come to occupy an increasingly important role since the global financial crash, as states have come to see them as a stabilising economic force, a low-cost alternative to private finance and a means of promoting sustainable development objectives. The size, mandate and institutional set-up of SIBs vary across countries and are closely linked to the historical development of national and regional political economies. But at their most effective they can provide 'patient', mission-oriented finance to support pro-public innovation and the pursuit of socio-economic goals, while also playing a valuable counter-cyclical role when private lending and investment is weak.[32]

Not all SIBs have been successful, and even those regarded as successes have been subject to heavy criticism. Campaigning NGOs such as Counter Balance, Re:Common and the CEE Bankwatch Network, for example, have done considerable work to highlight the EIB's use of tax havens, links to corruption, support for fossil fuels and focus on creating profit-making opportunities for private finance.[33] Even the KfW, one of the greenest and highly regarded SIBs globally, once earned the moniker of 'Germany's dumbest bank' after it made an automated transfer of $300 million to

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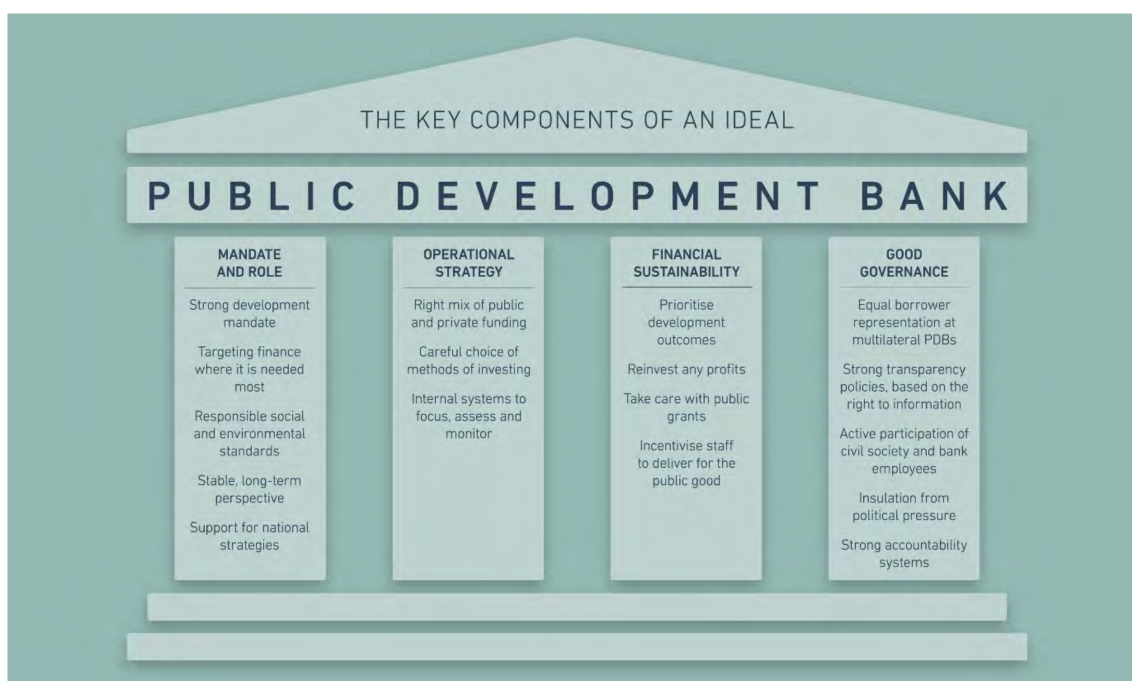
32 Laurie Macfarlane and Mariana Mazzucato, 'State investment banks and patient finance: An international comparison', IIPP WP 2018-01 (February 2018), **https://www.ucl.ac.uk/bartlett/public-purpose/sites/public-purpose/files/iipp_wp_2018-01.pdf**.

33 See, for example, Counter Balance, *Hit and Run Development* (November 2010), **http://www.counter-balance.org/wp-content/uploads/2011/01/Hit-run-development_WEB.pdf**; Counter Balance and Re:Common, *Reclaiming Public Banks: A thought provoking exercise* (2015), **http://www.counter-balance.org/wp-content/uploads/2015/05/RECLAIMING-public-banks-final.pdf**; Re:Common and Counter Balance, *Towards a Responsible Taxation Policy for the EIB* (2015); Counter Balance, *Failing Better or Climate Success? Briefing on the European Investment Bank & support to fossil fuels* (December 2018), **http://www.counter-balance.org/wp-content/uploads/2018/12/Failing-better-or-climate-success.pdf**.

Lehman Brothers just hours before the latter's collapse. The KfW also faced criticism for bailing out the sub-prime losses of one of its subsidiaries before selling it on at a 'low three-figure sum' to the vulture fund Lone Star.[34] As one report by Eurodad has found, the best and worst practices of SIBs internationally tend to centre around the areas of policy mandate, operational strategy, financial sustainability and decision-making. This growing understanding of SIBs, their successes and failures offers valuable lessons about how they can be designed to address modern societal challenges in different national contexts.[35]

Figure 6. The key components of a public/state development bank (Source: Eurodad, 2017)[36]



Ireland's pale imitation of a SIB does not come with the same challenges of scale or global interconnectedness, but its shortcomings have become patently clear since its establishment in 2014. The Strategic Banking Corporation Ireland (SBCI) originated in a Government pledge to establish a 'strategic investment bank' in 2011, which was then watered down to the creation of a commercial fund (ISIF) and separate banking entity focused primarily on SME lending.

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34 James Wilson and Chris Bryant, 'Lehman payout sparks KfW rethink', *Financial Times*, 19 September 2008, **https://www.ft.com/content/221895cc-868a-11dd-959e-0000779fd18c**.

35 Eurodad, *Public Development Banks: Towards a Better Model* (April 2017), **https://eurodad.org/files/pdf/1546743-public-development-banks-towards-a-better-model.pdf**.

36 Maria Romero, 'Public Development Banks: towards a better model', *Eurodad*, 19 April 2017, **https://eurodad.org/Entries/view/1546743/2017/04/19/Public-Development-Banks-towards-a-better-model**.

An external review of the SBCI's performance notes that it did provide a 'valuable' source of finance for SMEs in its early days, but has signally failed to realise its potential in a number of important respects:

- Replication of supports offered by other agencies;
- A confused mandate and strategic purpose, compounded by the intermittent adoption of new policy focuses;
- The SBCI's on-lending model, which uses a small pool of banking (AIB, Bank of Ireland, Ulster Bank) and non-banking intermediaries rather than lending directly as a competitor or working through pro-public lending infrastructure;
- A mismatch of products with the needs of SMEs;
- Declining SME credit demand; and
- A failure to effect a reduction in borrowing costs for small loans, even in the context of falling interest rates across Europe.[37]

As Conor McCabe has rightly argued, the nature of support for SMEs during the pandemic has been cumbersome and inadequate best, parasitic at worst. It is clear that many of these businesses will require access to zero-interest credit and possibly even debt write-downs if they are to survive.[38] The SBCI is not built for this purpose, nor, as we have established, does it have a clear strategic role linked to a core set of developmental and progressive state policy objectives. There is therefore a strong case for reconstituting the SBCI based on a mission-led mandate and pro-public lending model, within a new set of democratic banking arrangements. This would act as a complement to, rather than a substitute for increased direct state expenditure in areas such as R&D, where public spending has been persistently low in comparative European terms (Figure 7). In general terms, Ireland does not have the kind of 'green entrepreneurial state' that is needed to drive a 'sociotechnical' transformation in green technologies,[39] focusing instead on market-based fixes and short-term venture capital. This is where direct public investment and a mission-oriented state investment bank could combine with good effect.

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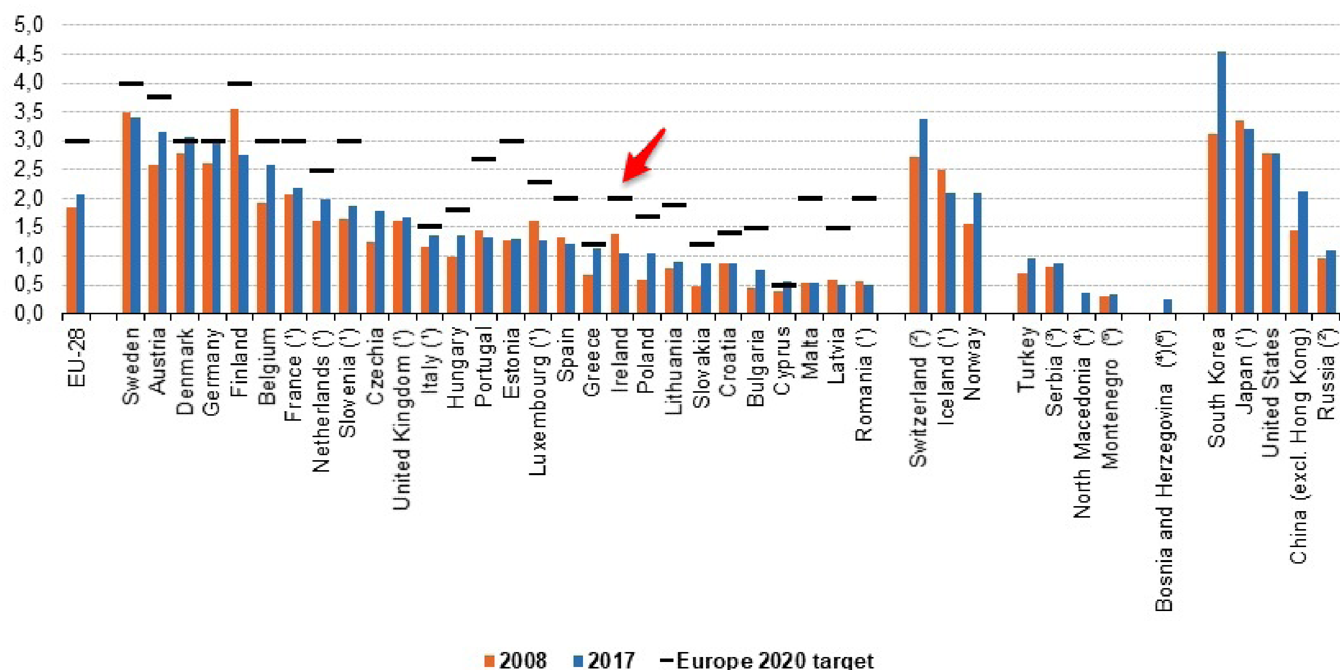
37 EY, *Strategic Banking Corporation Ireland: External Strategic Review* (December 2019).

38 Unite the Union and Conor McCabe, *Hope or Austerity: A Roadmap for a Fairer, Better Ireland after the Pandemic* (2020), pp. 6-7, **https://unitetheunion.org/media/3027/hope-or-austerity-a-roadmap-for-a-better-fairer-ireland-after-the-pandemic-v2.pdf**.

39 Mariana Mazzucato, 'The Green Entrepreneurial State', SPRU Working Paper Series 2015-28 (October 2015), **https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2744602**

Figure 7. Gross domestic expenditure on R&D, 2007 and 2017 (Source: Eurostat)[40]



The core mission of any reconstituted state investment bank has to be focused on climate action and embedded within wider just transition framework, including a binding mandate to realise clearly defined social, ecological and human rights objectives over profit.[41] Supporters of the newly established Scottish National Investment Bank (SNIB) have fought a successful campaign to ensure that tackling climate change will form on of its three 'primary missions', making it a potential delivery agent for a Green New Deal. This model is based on the Welsh Development Bank, which has a targeted sectoral approach to how it works. Significantly, however, the Scottish Greens failed in a bid to include tangible climate commitments on the face of enacting legislation for the SNIB,[42] which makes its environmental mission less urgent and more likely to drift than it would have been otherwise. While there is much to be gleaned from this example, particularly in relation to its strong social dimensions and capacity for intervening in markets, it also highlights the necessity of legislating for a watertight socio-ecological mandate.

Capitalising a green state investment bank should be more straightforward due to the SBCI's current financial position and a lending context that is inching very slowly towards sustainability. The SBCI is well capitalised due to its ability to source low cost funding supports from a range of providers including the EIB, ISIF, KfW,

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40 Eurostat, Europe 2020 indicators – R&D and innovation, **https://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_R%26D_and_innovation#R.26D_intensity_in_the_EU_is_growing_too_slowly_to_meet_the_Europe_2020_target**.

41 Oscar Reyes, 'Public Investment for Financial System Change, not Climate Change', in Lavina Steinfort and Sakoto Kishimoto (eds.), *Public Finance for the Future We Want* (Amsterdam: TNI, 2019), pp. 175-177.

42 'SNIB denied climate focus', *Scottish Greens*, 22 January 2020, **https://greens.scot/news/snib-denied-climate-focus**.

Irish Minister for Finance and Council of European Development Bank. A large portion of this funding is undrawn and has had to be returned, for reasons directly linked to the SBCI's structural weaknesses.[43] However, a renewed socio-ecological mandate combined with changes to its funding and lending model could put the reconstituted bank on a par with the SNIB, relative to the size of Scotland and Ireland's populations.

The SBCI is already in a strong position to access Invest EU funds up till 2027, while ISIF, Government and EIB funding could potentially be expanded to support the bank's clearly defined mission. This would be all the more feasible were the EU to deliver on its promise to transform the EIB into a fully-fledged European climate bank.[44] Authorisation to issue green bonds to a limited pool of public investors under precise conditions is another option that could be considered as part of the new bank's mandate. Again, this would need to include strong protections such as capped interest rates, non-sellable terms and restrictions to prevent the bonds from being hedged against socially and environmentally destructive activities.[45]

Finally, such a bank may need to be part of a new public banking ecosystem created to enable democratic decision-making over the 'entire chain of functioning of the banking institutions' for the benefit of citizens, communities and the environment.[46] Sinn Féin and the Irish Rural Link have both sketched out proposals for the establishment of a local public banking network based on the German Sparkassen model. This would see a number of local public banks established in well-defined areas to replace the commercial 'pillar banks' as intermediaries for a state investment bank, in order to provide a more directly accessible and democratic form of lending tailored to the needs of regions and local communities.[47] The Public Banking Forum of Ireland has advocated an expanded version of this proposal which envisages a role for a standalone Post Office banking model co-existing with a public/Credit Union banking model.[48] In more recent times, these ideas have been fleshed out in a now shelved report produced for the British Labour Party, which details how a system like this could work from top to bottom.[49]

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43 EY, *Strategic Banking Corporation Ireland*, p. 52.

44 See CEE Bankwatch, *The Road Less Travelled: How the European Investment Bank's Climate Roadmap 2021-2025 Can Lead it to Become the Climate Bank* (2020), **http://www.counter-balance.org/wp-content/uploads/2020/05/2020-04_EIB_Climate_Action_06_d.pdf**; Stanislas Jourdan, 'Green QE is about more than buying climate-friendly bonds', *FT Alphaville*, 18 December 2019, **https://ftalphaville.ft.com/2019/12/17/1576593138000/Green-QE-is-about-more-than-buying-climate-friendly-bonds/**.

45 Counter Balance and Re:Common, *Reclaiming Public Banks*, p. 20.

46 Ibid., p. 21.

47 Sinn Féin, *Local Banks for Local Business: A Sinn Féin Discussion Paper* (Summer 2015), **https://www.chg.gov.ie/app/uploads/2017/04/submission-by-sinn-fein.pdf**; Irish Rural Link, *A Rebuttal of the Joint Report Local Public Banking in Ireland* (September 2018), **http://www.irishrurallink.ie/wp-content/uploads/2018/09/Local_Public_Banking_Report_Rebuttal_public-00000002.pdf**.

48 Public Banking Forum of Ireland (PBFI), *Creating Ireland's Alternative Banking Force* (March 2017), **https://www.chg.gov.ie/app/uploads/2017/04/submission-by-pbfi.pdf**

49 Christine Berry and Laurie McFarlane, *A New Public Banking Ecosystem: A report to the Labour Party commissioned by the Communication Workers Union and The Democracy Collaborative* (2019), **https://labour.org.uk/wp-content/uploads/2019/03/Building-a-new-public-banking-ecosystem.pdf**.

Although the Irish Government has established that there is no 'business case' for public banking,[50] the perfect storm of persistent commercial banking failures, regional imbalances, economic recession and runaway climate change emphasises the need for structural changes to reorient the banking system towards the public interest. As the incoming Government prepares to sell off its shares in AIB (71%), Bank of Ireland (14%) and Permanent TSB (75%) to pay off the national debt,[51] consideration needs to be given as to whether AIB would be better placed at the service of climate action and the public good. This could exist alongside or even act as the state investment bank, so long as it is properly capitalised, given an expanded remit and is calibrated to form an integral part of the new public banking system. The important thing is that we would not be starting from scratch. Existing structures and the proposals discussed above offer a foundation upon which an alternative system could be devised, drawing upon the growing evidence base of best practice and lessons from other experiences.

3.2.3 A new and green municipalism

In order for people and planet to be prioritised over profit, the democratisation of finance has to be situated within a democratic reorganisation of state and economy. The Green New Deal and Just transition is an opportunity to give citizens a stake in shaping and reaping the benefits of a zero-carbon transformation. Many of the big climate action planning and investment decisions that are needed in key sectors will necessarily have to be taken by the central state,[52] however this can be done more or less democratically. The democratic route would involve a process of participatory decision-making where workers, farmers, consumers and community members are represented on bodies such as enterprise boards, state planning bodies and sectoral/regional transition commissions according to their 'social ownership' – the extent to which they are affected by the decisions concerned.[53] Moves towards a new and green municipalism across Ireland could also help to drive a place-based transition rooted in socially just and ecological solutions to the challenges facing communities.

The past decade has seen a rapid shift towards radical municipalism across Europe and globally. In many cases citizen-led campaigns to resist austerity or reclaim public services have mushroomed into social movements set on building economic and political democracy at a city or regional level. From the municipalist 'vanguard city' of Barcelona to the eco-socialism of Cooperation Jackson, the constituent parts of this fledgling global movement have sought to turn the tide of neoliberalism in their own contexts whilst forging new lines of international cooperation and solidarity.[54]

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50 Department of Finance Press Release, 'Minister Donohoe publishes independent external evaluation on Local Public Banking', 19 December 2019, **https://www.gov.ie/en/press-release/3f7624-minister-donohoe-publishes-independent-external-evaluation-on-local-/**.

51 Programme for Government (PfG): Our Shared Future (June 2020), p. 23, **https://static.rasset.ie/documents/news/2020/06/draft-programme-for-govt.pdf**.

52 See Leigh Phillips and Michal Rozworzki, 'Planning the Good Anthropocene', *Jacobin*, 15 August 2017, **https://jacobinmag.com/2017/08/planning-the-good-anthropocene**.

53 Pat Devine, 'Participatory Planning Through Negotiated Coordination', *Science & Society*, Vol. 66, No. 1 (Spring 2002), pp. 72-85.

54 Barcelona En Comú with Debbie Bookchin and Ada Colau, *Fearless Cities: A Guide to the Global Municipalist Movement* (Oxford: New Internationalist, 2019); Matthew Thompson, 'What's so new about New Municipalism?', *Progress in Human Geography* (online), 9 March 2020, **https://journals.sagepub.com/doi/10.1177/0309132520909480**.

None of these municipal experiments are without their shortcomings or harsh lessons, but it is worth noting that they have often led the way in promoting inclusive approaches to climate action, from ambitious fully-fledged climate action strategies to initiatives focused on energy democracy, green public housing and transport, democratic control of utilities, sustainable food production and collective stewardship of the commons. These local level projects are crucial to expanding public wealth as well as building popular support for state-led Green New Deal and just transition by showing that an emancipatory future is possible.[55]

One form of new municipalism that has gained significant momentum in recent years is community-wealth building, described by proponents as 'an asset-based approach to bottom-up, equitable, inclusive and sustainable economic development'.[56]

The most successful example of this approach is to be found in Preston, where the City Council and Centre for Local Economic Strategies (CLES) worked to encourage a number of 'anchor institutions' – locally rooted public institutions with significant financial power – to harness their procurement spending for local economic, social and environmental benefits. This trebled the local spend of participating anchor institutions in the space of five years, while the two councils in the wider Lancashire area were successful in convincing the local government pension fund to increase its investment in the locality.[57] As well as this, Preston City Council has adopted plans to support new democratic forms of ownership such as cooperatives, and joined forces with Wirral and Liverpool Councils to launch a new community bank for the region.[58] The 'Preston model' has inspired other councils to follow suit, North Ayrshire being the latest – and Scotland's first – local government to adopt a community-wealth building strategy earlier this year. Notably, this strategy will be used to support the Council's net-zero carbon ambitions and a just transition for North Ayrshire.[59]

The strategy adopted by North Ayrshire could go some way towards addressing the unprecedented challenges facing local authorities and the communities they serve, not least those of economic uncertainty, unemployment, housing need, demographic changes and climate change. As the public sector trade union Fórsa argues, the need for 'reimagining and restoring local democracy' in Ireland is particularly acute due to the concentration of power a nd resources in the hands of central government and unelected bureaucrats, combined with the scourges

55 See Erik Olin Wright, *Envisioning Real Utopias* (London: Verso: 2010).

56 Thomas M. Hanna, 'Community Wealth Building and Resilient Local Economies: The Role of Anchor Institutions', in Steinfort and Kishimoto (eds.), *Public Finance for the Future We Want*, p. 94.

57 CLES and Preston City Council, *How we built community wealth in Preston: Achievements and lessons* (July 2019), **https://cles.org.uk/wp-content/uploads/2019/07/CLES_Preston-Document_WEB-AW.pdf**.

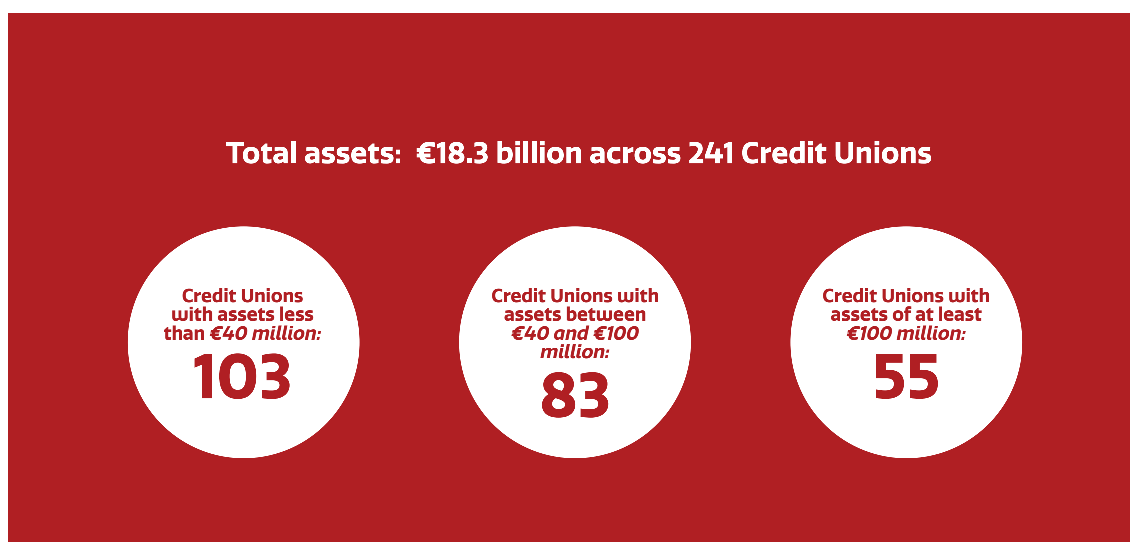
58 Preston City Council, 'North West Councils partner up for Community Bank', 11 June 2020, **https://www.preston.gov.uk/article/2498/North-West-Councils-partner-up-for-Community-Bank**.

59 North Ayrshire Council, *Community Wealth Building Strategy 2020-2025: An Action Plan for a Community Wealth Building Council* (2020), **https://www.north-ayrshire.gov.uk/Documents/nac-cwb-strategy-brochure.pdf**.

of austerity and outsourcing.[60] A climate-focused community wealth-building approach within a broader democratisation agenda could provide for enhanced local public service provision, and ensure that new and existing resources are directed towards the objective of a 'sustainable, regionally balanced and democratic Ireland'.[61] This could involve support for local energy democracy and other citizen-led green projects that have sprouted up from municipalist movements globally. Seán McCabe of TASC suggests that the model could be applied in rural parts of Ireland to promote regeneration, tackle inequality and lay the foundations for a just transition.[62]

The ambition of this agenda would of course depend on the level of funding that can be obtained. One option for enhancing the investment capacity of local authorities is for the Minister for Finance to authorise larger urban councils to issue municipal bonds and a number of smaller councils to pool their borrowing requirements for the same purpose.[63] This is a common practice in Britain and across Europe, and helps to explain the possibility of larger scale strategic interventions in different municipalities. The Government could also work with the Credit Union to open up its lending facilities to climate action initiatives that are community-led and for community benefit.[64] This could be done through an integrated public banking model (see above), or in partnership with local government and other key stakeholders in a well-defined area.

Figure 8. Credit Union assets in Ireland, end-2019 (Source: Central Bank of Ireland, 2019)[65]



60 Fórsa (with Connect and SIPTU), *More Power to You: Make Government Local, Improve Your Local Services* (March 2019), **https://www.forsa.ie/wp-content/uploads/2019/03/MorePower-Report.pdf**.

61 Paul Goldrick-Kelly, 'Community wealth building for the regions?', *NERI Blog*, 12 February 2020, **https://www.nerinstitute.net/blog/community-wealth-building-regions**.

62 Seán McCabe, *Community led just recovery for rural Ireland* (May 2020), **https://www.tasc.ie/assets/files/pdf/policy_brief_-_community_led_climate_action_-_final_120520.pdf**.

63 Gerard Turley and Stephen McNena, 'Local government funding in Ireland: Contemporary issues and future challenges', *Administration*, Vol. 67, No. 4, pp. 21-24.

64 McCabe, *Community led just recovery for rural Ireland*, p. 5.

65 Central Bank of Ireland, *Financial Conditions of Credit Unions,* 2019: II, Issue 6 (December 2019), p. 4, **https://www.centralbank.ie/docs/default-source/regulation/industry-market-sectors/credit-unions/communications/financial-conditions-of-credit-unions/financial-conditions-of-credit-unions-2019-ii.pdf**.

These measures would, finally, need to be accompanied by a new fiscal settlement for local authorities across the state, particularly in rural areas where the impact of cuts has been compounded by declining revenues. Strengthening local democracy and local government capacity requires a rebalancing of 'nationally provided and locally collected sources of income', increasing the share of government expenditure that flows through local government from 8% to the European average of 22-23%.[66] This could be used to pursue enhanced public service delivery informed by greater citizen involvement in decision-making, and allow councils to adopt tailored climate action strategies suited to local conditions and the needs of local populations.

3.2.4 A fair and sustainable tax system

Green New Deal advocates such as Ann Pettifor have stressed the importance of coordinating state investment with tax policy.[67] This is necessary to help pay down borrowing costs, support future public spending, curb non-productive and carbon-intensive investment, and for reasons of social solidarity and equality.

Despite recent corporate tax windfalls, Ireland remains a low tax economy with a lower tax take than peer countries in Europe. According to the latest figures, Ireland's tax-GDP-ratio stood at just 23% in 2018, compared with an EU-15 average of 40.9%. Using the GNI* measurement, the Irish state's tax revenue as a share of national income was 41.5%, which compares unfavourably with high-income countries with strong social safety nets and public service provision, such as France (48.4%), Denmark (45.9%) and Sweden (44.4%).[68] Per capita receipts from all taxes and employer social contributions in particular are lower than in high-income peer countries. Taxes on wealth, property and inheritance are also comparatively than the EU average, while consumption taxes, which tend to be regressive, are much higher.[69]

Ireland is a tax haven, despite the Government's protestations to the contrary and the recent judgement of the EU General Court in favour of the 0.005% tax rate arranged between Apple and the Irish state.[70]

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66 Fórsa, *More Power to You*, p. 19.

67 Ann Pettifor, *The Case for a Green New Deal* (London: Verso, 2019), p. 68. p. 133.

68 Eurostat, Main national accounts tax aggregates, **https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=gov_10a_taxag&lang=en**; CSO statistical release, Government Income and Expenditure, 12 July 2019, **https://www.cso.ie/en/releasesandpublications/er/giea/governmentincomeandexpenditurejuly2019/**; CSO, National Income and Expenditure 2018, **https://www.cso.ie/en/releasesandpublications/ep/p-nie/nie2018/mgni/**.

69 Paul Goldrick-Kelly and Thomas McDonnell, 'Taxation and Revenue Sufficiency in the Republic of Ireland', NERI WP 2017/No 48 (October 2017), **https://www.nerinstitute.net/sites/default/files/research/2019/taxation_and_revenue_sufficiency_in_the_republic_of_ireland.pdf**.

70 Emma Clancy, 'Apple's 0.005% tax rate endorsed by EU court', *Irish Broad Left*, 15 July 2020, **https://irishbroadleft.com/2020/07/15/apples-0-005-tax-rate-in-ireland-endorsed-by-eu-court/**.

This view of Ireland's corporate tax arrangements is shared by the US Senate,[71] IMF,[72] European Parliament[73] and an increasing number of researchers and tax justice experts. One study by Berkley University economist Gabriel Zucman and colleagues has established that Ireland is the 'number one' destination for profit-shifting, and one of the key tax havens in Europe overall.[74] Similarly, the Corporate Tax Haven Index 2019 ranks Ireland 11th of 64 international tax haven jurisdictions, including Overseas Territories and Crown Dependencies.[75] The sweetheart deal which enabled Apple to forego approximately €14.3 billion in tax liability to the Irish state is one illustrative example of the suite of avoidance measures that are exploited by multinationals, indigenous firms and wealthy individuals alike. Ireland's expansive system of tax exemptions and subsidies has also been extended to the most unproductive and socially harmful of sectors, from the vulture and equity funds speculating on the Irish housing market to companies involved in the fossil fuel industry.

Building international pressure has forced the Government to make incremental legislative amendments to remove certain tax loopholes, but these have left the central pillars of Ireland's tax regime fundamentally intact. The Irish state has repeatedly opposed meaningful tax reform at a European level, Apple tax case. During the recent 'coronabonds' negotiations, Ireland was among the tax haven states that refused to support Spanish Government's ambitious recovery fund proposal because it was linked to EU tax harmonisation and an end to 'unfair practices'. The Government has also opposed the idea of a digital services tax that would look to clamp down on some of the avoidance practices of tech giants.

The new PfG commits to defending Ireland's totemic 12.5% headline corporate tax rate, and states that the Government will only engage on international tax reform 'through the OECD process'.[76] This is short-hand for: "We'll take no steps to address our tax haven arrangements until the force of international rules compels us to do so." The Irish state will fight to protect its tax haven status in order to satisfy the needs of US multinationals, and 'because the interests of its middlemen [lawyers, economists, accountants and lobbyists] are dependent on its survival'.[77] This is despite the multiple damaging impacts of these tax arrangements, not just on the Irish tax base available for investment, but on the revenue of countries struggling to sustain public spending even in 'normal' times.[78]

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71 US Senate Permanent Subcommittee on Investigations, Offshore Profit Shifting and the U.S. Tax Code – Part 2 (Apple Inc), 21 May 2013, **https://www.gpo.gov/fdsys/pkg/CHRG-113shrg81657/pdf/CHRG-113shrg81657.pdf.**

72 Jannick Damgaard, Thomas Elkjaer, and Niels Johannesen, 'The Rise of Phantom Investments', *IMF Finance & Development*, Vol. 56, No. 3 (September 2019), **https://www.imf.org/external/pubs/ft/fandd/2019/09/the-rise-of-phantom-FDI-in-tax-havens-damgaard.htm**.

73 European Parliament Press Release, 'Tax crimes: special committee calls for a European financial police force', 27 February 2019, **https://www.europarl.europa.eu/news/en/press-room/20190225IPR28727/tax-crimes-special-committee-calls-for-a-european-financial-police-force**.

74 Thomas R. Tørsløv, Ludvig S. Wier and Gabriel Zucman, 'The Missing Profits of Nations', Working Paper (22 April 2020), **https://missingprofits.world/wp-content/uploads/2020/05/TWZ2020.pdf**.

75 Tax Justice Network Corporate Tax Haven Index 2019, **https://corporatetaxhavenindex.org/en/introduction/cthi-2019-results**.

76 PfG, p. 21.

77 Conor McCabe, 'The Apple ruling and the Irish comprador class', in Trademark Belfast (ed.), *Essays in Honour of Joe Law*

78 Alex Cobham and Petr Jansky, 'Global distribution of revenue loss from corporate tax avoidance: re-estimation and country results', *International Journal of Development*, Vol. 30, No. 2 (2018), pp. 206-232.

Yet, this low-tax strategy is increasingly risky, unsustainable and unlikely to result in 'an innovative, research-led economy'.[79] Changes to international tax rules are already having an impact on Ireland's ability to offer the same 'tax efficient' services as before, and further moves in this direction are inevitable as access to information improves and challenges to the tax avoidance policies of individual states become more frequent and successful. As OECD-led talks show signs of breaking down, it is increasingly likely that the EU will press ahead with its own tax reform agenda as early as this year.[80] A number of EU countries have already introduced a digital services tax, and the European Commission has indicated that it is exploring the use of an obscure treaty provision to get around the need for unanimity on tax matters among member states.[81]

The impact of sudden changes to European or global tax rules on Ireland would be significant: although only 20% (roughly €10 billion) of total Irish Government revenue comes from the corporate sector, 40% of this is paid by just ten companies, primarily multinationals.[82] The Department of Finance has indicated that at least €2 billion of corporate tax revenue is at risk due to the OECD process and EU anti-avoidance measures.[83] And yet, the Government has continued to bury its head in the sand, refusing to heed longstanding calls from trade unions, civil society and the European Commission to broaden its tax base.[84]

This need for action to increase Ireland's tax take as a percentage of national income has gained added urgency now that the pandemic is set to result in a sharp fall in revenue. There is a danger that as corporate sector revenue declines and the wealthy look to stash even more of their assets off-shore, the greatest burden for keeping the lights on will fall on workers and households – just as it did in the wake of the last crisis. The single most effective way for Ireland to broaden its tax base is for the Government to lead an economic transformation centred around public investment and the growth of green indigenous enterprises. This can be supported with a progressive tax reform agenda, some of the options for which are outlined below.

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79 Jim Stewart, 'Corporate Tax Policy in Ireland: Time for a Change?', *Economia & lavoro*, 3 (September – December 2018), pp. 179-186.

80 'EU ready to go it alone on taxation of digital firms', *RTÉ News*, 18 June 2020, **https://www.rte.ie/news/business/2020/0618/1148187-digital-tax-talks/**.

81 Clancy, 'Apple's 0.005% tax rate endorsed by EU court'.

82 Department of Finance; Department of Public Expenditure and Reform, Revenue profile 2020, **https://assets.gov.ie/73851/eb073c3cd22f48c0a549b70dd107a188.pdf**; Eoin Burke-Kennedy, 'Ten firms account for €4bn of State's tax take', *Irish Times*, 4 January 2019, **https://www.irishtimes.com/business/economy/ten-firms-account-for-4bn-of-state-s-tax-take-1.3747211**.

83 Christina Finn, 'Ireland's corporation tax receipts set to take a hit under new rules and fall by up to €2bn', *TheJournal.ie*, 9 January 2020, **https://www.thejournal.ie/corporation-tax-ireland-2-4960036-Jan2020/**.

84 European Commission, *Country Report Ireland 2020*, **https://ec.europa.eu/info/sites/info/files/2020-european_semester_country-report-ireland_en.pdf**.

Closing the tax haven and ending corporate welfare

The very first thing that needs to happen is for the Irish state to actively support tax reform efforts at an EU level, which is not simply a practical economic necessity but a basic principle of international solidarity. There is also Ireland's wider system of corporate subsidies and tax breaks that needs to be looked at. The initial steps that could be taken include:

1. Removing any residual measures that facilitate tax avoidance for corporations and wealthy individuals in Ireland, directly where possible and indirectly through taxation increases where appropriate. Sinn Féin, for example, has established that taxing intangible assets (i.e. intellectual property) alone would raise an initial sum of €722 million.[85]

2. Supporting and properly implementing four main tax reforms at an EU level: i) a digital services tax; ii) the long-debated Common Consolidated Corporate Tax Base (CCCTB), which would enable EU member states to assess taxable profits in their jurisdiction on a unitary basis, taking a share of each multinational's global, consolidated profits in proportion to the share of the multinational's employment and sales in the country in question. This would effectively put an end to practices such as transfer pricing and profit shifting; iii) mandatory country-by-country reporting of employment, sales, declared profits and tax paid for multinationals with revenue of over €750 million. Ireland has adopted country-by-country reporting, but has not taken the crucial step of making this process public; iv) a minimum effective corporate tax rate of 25% across the EU, to deliver a level playing field and increase the revenue of member states.[86]

3. Setting a pathway for making Ireland's 12.5% headline corporate tax rate the effective rate in the interim, ending the tax breaks for AIB, Bank of Ireland and Permanent TSB in the process.

4. Removing state subsidies to the fossil fuel industry and carbon-intensive activities. The CSO estimates fossil fuel-related subsidies to be in the region of €2.5 billion per year, although this includes measures such as fuel allowances to alleviate fuel poverty among households.[87] *There are, however, a number of areas where the state continues to provide direct and indirect financial support to fossil fuel companies, particularly in the exploration, production and distribution of natural gas.*[88] *These supports need to be redirected to green public investment.*

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85 Sinn Féin, *Giving workers & families a break: A Manifesto for Change* (2020), p. 100, **https://www.sinnfein.ie/files/2020/SF_GE2020_Manifesto.pdf**.

86 Alex Cobham and Javier Garcia-Bernardo, *Time for the EU to close its own tax havens* (April 2020), **https://www.taxjustice.net/wp-content/uploads/2020/04/Time-for-the-EU-to-close-its-own-tax-havens_April-2020_Tax-Justice-Network.pdf**.

87 CSO, *Fossil Fuel and Similar Subsidies 2012-2016* (2019), **https://www.cso.ie/en/media/csoie/releasespublications/documents/rp/fossilfuelandsimilarsubsidies/Fossil_Fuel_and_Similar_Subsidies.pdf**.

88 Friends of the Earth, *Fossil Fuel Subsidies in Ireland* (2020), **https://www.foe.ie/assets/files/pdf/1583764681846613291.pdf**.

Additionally, there should be no financial assistance for carbon-intensive firms that does not come with a viable plan to bring their activities into alignment with the Government's own carbon emissions targets. Strict conditionality should also apply to prevent companies in receipt of public money from paying dividends or engaging in share buybacks.

5. Implementing a substantial increase in the taxes applied to real estate investment trust (REIT) dividends, which would simultaneously raise revenue and curb their exploitative and destabilising effects on the housing market. Hundreds of €millions of tax revenue has already been foregone to REITs, specifically through the capital gains tax (CGT) exemption, which allows them to speculatively acquire and sell on property while avoiding the 33% GCT rate. We would be inclined to increase the tax applied to such activities to the point of making it unfeasible for these funds to operate in Ireland.

6. Rethinking the wider system of tax breaks that are of dubious benefit to society and increasingly hard justify in a time of crisis. In all, the Government has in place 106 different 'discretionary' tax-relieving measures, and the cost of these measures in revenue foregone is €21.4 billion.[89] Not all of these could be described as unfair, and most have not yet been subject to a close examination that would give us a clear idea of their purpose or impact. But we do know that some of these measures do bring significant financial benefits for the corporate sector and wealthy individuals. These include CGT exemptions as well as things like R&D Tax Credit, the Knowledge Development Box, the Special Assignee Relief Programme (SARP), the Accelerated Capital Allowance (ACA), the Entrepreneur Relief and Losses Brought Forward. A root-and-branch review and reform of these arrangements could provide the state with much-needed revenue for direct public spending and investment.

Increasing the social wage

The COVID-19 crisis has once again brought into sharp focus the impact of underinvestment in Ireland's public services and the inadequacy of social protections afforded to workers and households. Ireland needs a rapid expansion of universal public services, from healthcare and childcare to education and subsidised green public transport, alongside a social welfare system that guarantees workers and households a decent standard of living.[90] This expansion of social protections and low-carbon public goods, supported by increased wages, green employment and a shorter working week, will be key to building the public affluence necessary for a just transition.[91]

Pay Related Social Insurance (PRSI) does not form part of the tax system as such, but is a significant contributor to Government revenue and forms a major component

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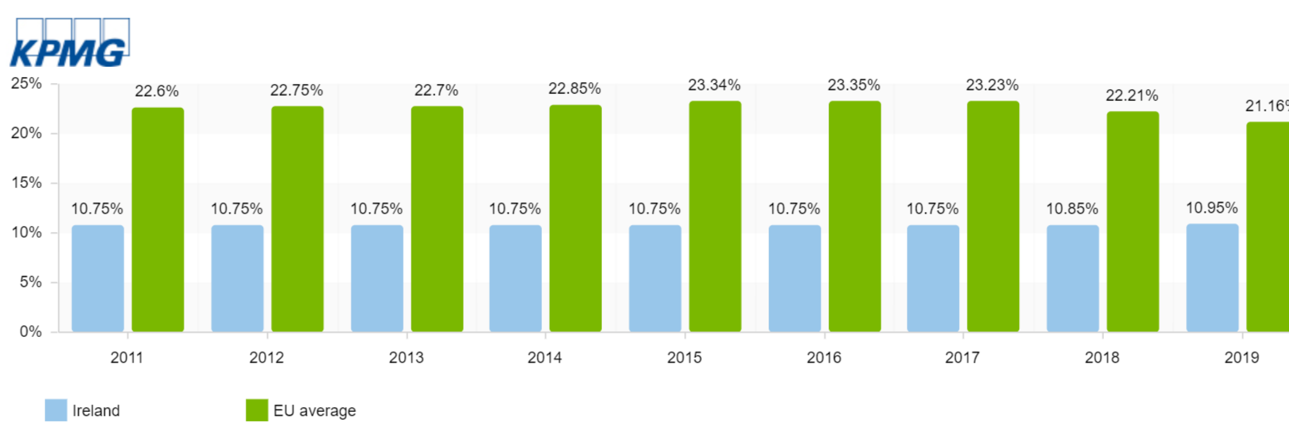
89 Committee on Budgetary Oversight debate, Scrutiny of Tax Expenditures (Resumed), 5 February 2019, **https://www.kildarestreet.com/committees/?id=2019-02-05a.7&fbclid=IwAR04w-si_tr4kfXv5nDO4SqpS51aSnRzpN3Btu1tMThftmcvEYjfk4fmR7Aw**.

90 ICTU, *No Going Back: A New Deal towards a safe and secure future for all* (May 2020), **https://www.ictu.ie/download/pdf/no_going_back_final_document_may_2020.pdf**.

91 Jason Hickel, 'Degrowth: A theory of radical abundance', *Real-world Economics Review*, No. 87 (2019), pp. 54-68.

of the social wage. However, Ireland currently has the lowest level (3.8% of GDP) of PRSI in the EU, and the second lowest if we use the GNI* figure (5.6%).[92] Ireland's two-tier healthcare system, poor social protections and diminishing state pension provisions are all a direct result of this situation, which has pertained for many years. In short, people are having to weigh up the cost of GP appointments, prescriptions and urgent medical treatments, as well as largely funding their own sickness/paternity pay and pension schemes, because successive governments have failed to address the gap in social insurance funding. While employee and employer PRSI contributions are low by European standards, this is outweighed by the comparatively high level of taxes and cost of living. It is employer PRSI levels that explains the biggest shortfall in absolute financial terms.

Figure 9. Social security (employer) tax rates, 2011-19 (Source: KPMG)[93]



As Figure 9 shows, Irish employers' PRSI would need to double to reach the EU average, and almost treble to reach the levels of pertain in peer countries with a high social wage.[94] Increasing employers' PRSI contributions to the EU average over the medium term would raise approximately €9.2 billion that could be diverted into a new public childcare system, enhanced social protections or the standout priority of a universal, single-tier healthcare system.[95]

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92 Unite the Union and McCabe, *Hope or* Austerity, p. 9.

93 KPMG, Tax Rates Online, **https://home.kpmg/xx/en/home/services/tax/tax-tools-and-resources/tax-rates-online.html**.

94 Eurostat, Net Social contributions, **https://ec.europa.eu/eurostat/tgm/graph.do?tab=graph&plugin=1&pcode=tec00019&language=en&toolbox=sort**.

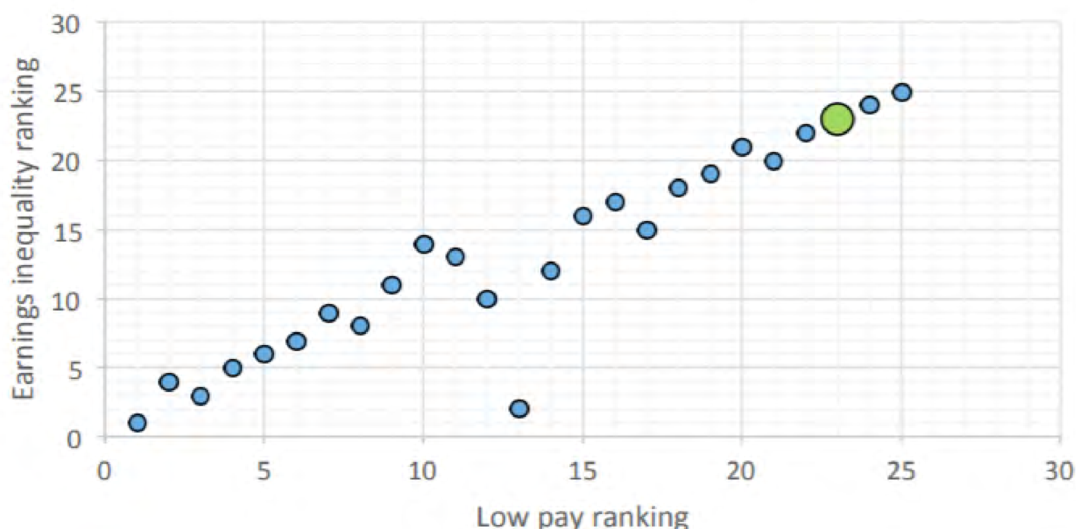
95 We are obliged to Seán Fearon for this information, which was retrieved from the Department for Public Expenditure and Reform.

Income and wealth taxes

Ireland experienced a steep rise in economic inequality during the first phase of austerity, and has remained a deeply unequal society despite the subsequent economic recovery.[96] According to a recent report by TASC, the share of income going to the top 1% increased from 4.4% in 2015 to 5.6% in 2018. One analysis based on tax data suggests the share of income going to this top 1% may have actually reached 12%.[97] The economist Brian O'Boyle has delved deeper into official Irish state figures to find that the number of households with an income of more than €100,000 has more than doubled in the past seven years, totalling nearly €37.5 billion.[98] Even these figures are likely to be understated as there is a 'greater incentive' for those on higher incomes 'to hide and underreport' as their share grows.[99]

At the same time, nearly a quarter of all workers (23%) are in low paid work, giving Ireland the third highest prevalence of low pay and third highest rate of earnings inequality in the EU. This is largely due to the incidence of low pay in Ireland's large hospitality and retail sectors, compounded by important factors such as declining trade union density, low collective bargaining coverage, weak workers' protections and gender inequalities.[100]

Figure 10. Low pay and inequality in Ireland (Source: TASC, 2020)[101]



96 TASC, *Cherishing All Equally 2019: Inequality in Europe and Ireland* (2019), **https://www.feps-europe.eu/attachments/publications/cherishing%20all%20equally%202019.pdf**.

97 TASC, *The State We Are In: Inequality in Ireland 2020* (2020), **https://www.tasc.ie/assets/files/pdf/the_state_we_are_in_tasc_final_030320.pdf**.

98 Brian O'Boyle, 'Paying for Covid: Who says we're in this together?', *Irish Marxist Review*, Vol. 9, No. 27 (2020), p. 55.

99 TASC, *The State We Are In*, p. 14.

100 TASC, *Cherishing All Equally 2019*, pp. 78-81.

101 TASC, *The State We Are In*, p. 21.

The distribution of wealth in Ireland is even more concentrated than that of income, and one of the most unequal in Europe.[102] It is estimated that the top 10% in holds up to 58% of Ireland's wealth, and top 1% up to 27% of all wealth, compared with 12% for the bottom half of the population.[103] A recent report by Oxfam International has revealed that Ireland now has the fifth highest proportion of billionaires globally – seventeen in total, nearly all men.[104] According to official figures, household wealth in Ireland has surpassed €800 billion for the first time, which equates to €500,000 per household.[105] Most of this is tied up in property and financial assets. But in the five years to 2019, the number of Irish residents with 'investable assets' (mainly cash and savings) of more than €1 million also increased from 67,559 to 100,446.[106] That is, at least €100 billion of wealth held by the richest segment of the population that could be readily converted for the public good. These figures contrast sharply with the 689,000 people (of which 202,000 are children) that were recorded as living in poverty – before the COVID-19 crisis hit.[107]

A wealth tax in Ireland is long overdue, not only to address existing inequalities and bring in additional revenue, but also to accurately 'map the nature of wealth in this state and the purpose to which it is being used'.[108] To this end Tom McDonnell of NERI has detailed how taxes on property, unproductive assets and unearned income could be increased in a way that is simple, fair and efficient.[109] There is an obvious case for increasing the taxes of those individuals in the top 5% of income earners (around €100,000 and above), whether as part of a recurring levy or through increased taxes on income. The introduction of a third rate of income tax on high incomes has been proposed by a number of political parties and trade unions. This would provide for a more sustainable revenue base and protect those on average incomes from having to pay the higher rate. Finally, the Universal Social Charge (USC) needs to be retained because it is one of the most progressive income taxes, raising approximately €4 billion per year mainly from the top bracket of earners.

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102 TASC, *Cherishing All Equally 2019*, pp. 51-52.

103 TASC, *Cherishing All Equally: Economic Inequality in Ireland* (2017), p. 54, **https://www.tasc.ie/assets/files/pdf/tasc_cherishing_all_equally_web.pdf**.

104 Joe Brennan, 'Ireland has fifth-largest number of billionaires per capita in the world, says Oxfam', *Irish Times*, 20 January 2020, **https://www.irishtimes.com/business/economy/ireland-has-fifth-largest-number-of-billionaires-per-capita-in-the-world-says-oxfam-1.4144796?mode=sample&auth-failed=1&pw-origin=https%3A%2F%2Fwww.irishtimes.com%2Fbusiness%2Feconomy%2Fireland-has-fifth-largest-number-of-billionaires-per-capita-in-the-world-says-oxfam-1.4144796#:~:text=Ireland%20has%20the%20fifth%2Dlargest,resort%20of%20Davos%20this%20week.**.

105 O'Boyle, 'Paying for Covid',

106 Hugh Cox, 'Paradise Ireland: luxury country estates at a discount', *Financial Times*, 22 May 2020, **https://www.ft.com/content/e2ec34a2-96e5-11ea-899a-f62a20d54625**.

107 Social Justice Ireland, 'More than 689,000 living in poverty in Ireland, over 200,000 are children', 28 November 2019, **https://www.socialjustice.ie/content/policy-issues/more-689000-living-poverty-ireland-over-200000-are-children#:~:text=689%2C000%20people%20in%20Ireland%20are,Ireland%20today%20compared%20to%202008.**.

108 Unite the Union and McCabe, *Hope or Austerity*, p. 9.

109 Thomas A. McDonnell, 'A Household Net Wealth Tax in the Republic of Ireland: Some Considerations', NERI Research inBrief No. 58 (August 2018), **https://www.nerinstitute.net/sites/default/files/research/2019/a_household_net_wealth_tax_in_the_republic_of_ireland.pdf**; 'Taxing Property: Suggestions for Reform', NERI WP 2019/No 63 (July 2019), **https://www.nerinstitute.net/sites/default/files/research/2019/working_paper_no_63_taxing_property_july_19.pdf**.

No regressive consumption taxes in the absence of viable alternatives

Given the levels of poverty and deprivation pertaining in large parts of Ireland, the new Government's plan to focus any tax rises on 'negative externalities' (carbon, sugar and plastics is particularly odious.[110] These are taxes that will have a disproportionate effect on low paid workers and low income households. Most notably, plans to increase the carbon tax to €100 per tonne will simply make people poorer without substantially reducing emissions, especially when they lack access to viable alternatives such as subsidised public transport. It will come as no consolation to poor households that the proceeds from the carbon tax will be used to help fund retrofitting subsidies, since it will represent the state giving with one hand and taking with another. Green, subsidised public transport and a state-funded retrofitting programme would, on the other hand, pay for themselves in terms of their revenue-generating impacts and the savings made on related income supports and health provision.

As the eco-socialist activist Saoirse McHugh has argued, the Government's emphasis on the carbon tax fits neatly into a narrative that 'prioritises individual choice' over tackling the big polluting industries.[111] The discrepancy between who is responsible for ecological damage and who pays for it is clear from the fact that 58% of total environment taxes are levied on households, compared with just 9.5% on industry and 0.7% on agriculture.[112] This is in inverse proportion to their contribution to energy consumption, carbon emissions and wider polluting impacts.

The Irish Government also continues to resist calls for increased taxes to be applied to aviation, even though emissions in the sector are steadily rising and could account for more than a fifth of total emissions by 2050. It is estimated that a tax on jet fuel could generate up to €10 billion in revenue across the EU, contributing to a substantial reduction in emissions.[113] A ban on private jets or the introduction of a frequent flyer levy would also be much more effective and progressive than the household carbon tax, since the bulk of air travel is made by the wealthy and lower carbon alternatives do exist especially for those using private jets.

The real, meaningful and equitable application of the 'polluter pays' principle in Ireland will inevitably require a confrontation with those who hold the most power and wealth in society. Failure to do so will condemn future generations to an unjust transition at best, climate apartheid at worst.

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110 PfG, p. 21.

111 Saoirse McHugh, 'Carbon tax is a red herring, the real climate culprit is the global tax system', *TheJournal.ie*, 8 December 2019, **https://www.thejournal.ie/readme/corporate-tax-climate-4921593-Dec2019/**.

112 CSO, *Statistical Yearbook of Ireland 2019* (2019), **https://www.cso.ie/en/releasesandpublications/ep/p-syi/statisticalyearbookofireland2019/soc/env/**.

113 Kayle Crossan, 'Ireland not among states calling for aviation climate contribution', *Green News.ie*, (n.d.), **https://greennews.ie/ireland-aviation-eu/**; Eoin Bannon, 'Taxing airlines could raise €3.7bn a year and help prevent return to pollution growth – new analysis', *Transport & Environment*, 22 June 2020, **https://www.transportenvironment.org/press/taxing-airlines-could-raise-%E2%82%AC37bn-year-and-help-prevent-return-pollution-growth-new-analysis**.

3.2.5 A new deal for workers

Workplace rights and trade union bargaining power are an integral part of any just transition to a zero-carbon economy. The focus of some environmentalists on the creation of new jobs in low-carbon sectors can often fail to address the experience of precarity, low pay and loss of bargaining in industries such as renewable energy. Ensuring that any new employment will be safe, secure, well-paid and unionised is necessary to assuage the legitimate fears and suspicions of workers and trade unions. Irish trade unions have made this a central plank of their engagements on the question of climate action, while highlighting the need for pre-emptive state planning and intervention in at-risk, carbon-intensive sectors.[114]

In different ways, the case of Bord na Mona, the near collapse of Harland & Wolff and the new threats facing the aerospace industry each spell out the need for early, determined action by the state to reorient Ireland's skilled workforce towards good, unionised green jobs.[115]

Strong collective bargaining has been shown to deliver in the workplace and wider economy, helping to promote better pay, better pensions and work-related supports, more secure employment, a healthier work-life balance and greater levels of equality across society.[116] Ireland is the only state in Western Europe that does not have binding collective bargaining legislation, relying instead on an archaic and ineffective voluntarist system of industrial relations in which firms are largely free to

114 John Barry and Sinéad Mercier, 'Progress towards a Just Transition on the Island of Ireland', *Medium*, 5 November 2018, **https://medium.com/just-transitions/barry-mercier-89d92079701f**; ICTU, *Building a Just Transition: The Case of Bord na Mona* (February 2019), **https://www.ictu.ie/download/pdf/building_a_just_transition_report_feb_2019.pdf**.

115 See Paul Goldrick-Kelly and Ciarán Nugent, 'Matching skills needs with skills reserves: Protecting workers & communities for a Just Transition', NERI Research inBrief No. 73 (January 2020), **https://www.nerinstitute.net/sites/default/files/research/2020/Matching%20skills%20needs%20with%20skills%20reserves%20inbrief.pdf**.

116 Thomas A. McDonnell, 'Trade unions, collective bargaining and economic performance', NERI Research inBrief No. 68 (June 2019), **https://www.nerinstitute.net/sites/default/files/research/2019/neri_research_inbrief_no_68_june_19.pdf**.

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disregard trade unions and the rulings of its tripartite bodies. This system is directly responsible for Ireland's high incidence of low pay, precarity and exploitation, and threatens to undermine the chances of a climate transition being in any way just.

Proper collective bargaining and the right to trade union access are necessary to address existing injustices and to ensure that workers and communities realise the benefits of a zero-carbon economic transformation. In addition, trade unions can help to lay the foundations for this transformation by putting questions of climate justice and the public good at the centre of their day-to-day practice. It is true that the outcome of high-profile mobilisations against the privatisation of public services, notably water and transport, carry implications for any future low-carbon transition. Trade union-led campaigns for a four-day week and the 'right to disconnect' are also significant for their potential to twin carbon emissions reductions with substantial economic and health benefits for workers.[117] But it could not be said that this broader approach has been generalised across the Irish trade union movement, with many unions focused heavily on what they determine to be the core issues of pay and conditions.

Climate justice and an expansion of low-carbon public goods should be at the heart of trade union campaigning activity, and hardwired into the bargaining agendas of those unions that do have collective agreements. Whether it is in relation to greener and safer working arrangements, reducing the environmental impact of business activities or the use of sustainable supply chains, the closer integration of these factors into the trade union movement's raison d'être can have an impact in the fight against climate action while helping to forge the alliances that will deliver a just transition.

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117 Four Day Week Ireland, **http://fourdayweek.ie/**; Financial Services Union, 'Union calls for "right to disconnect" legislation on World Mental Health Day', 10 October 2019, **https://www.fsunion.org/updates/2019/10/10/union-calls-for-right-to-disconnect-legislation-on/**.

4. Private finance and investment [1]

Public investment policy is arguably the single most important factor in determining the speed, scale and social impact of climate action. But private investment remains a crucial piece of the puzzle. The question is to what extent, on what terms and at what cost should the private sector be involved. Because the market's guiding logic means that private capital will continue to invest in socially and environmentally harmful activities as long as they are profitable and there is an absence of strong regulation. Many companies will also choose not to make productive green investments, or adopt policies and practices that support climate action, unless the state provides subsidies or guarantees to ensure a certain level of profitability.[2] These tendencies are underwritten by the 'self-regulating, globalised financial system that pours exponential quantities of unregulated credit' into the hands of speculators, fossil fuel companies and a range of carbon-intensive industries.[3] Without strong regulatory interventions to actively steer private investment and tighten the flow of credit, therefore, the allocation of capital into alignment with sustainable development objectives will not happen at the pace or in the manner that the planet and humanity requires.

4.1 The Irish financial sector's carbon footprint

Ireland's financial system can be broadly divided between the traditional domestic banking sector, which offers general banking services, and the complex web of financial institutions and cottage industries concentrated in the Irish Financial Services Centre (IFSC), 'a Wild-West, deregulated financial zone' established in the Dublin docklands area in 1987.[4] The total assets of Ireland's domestic banking sector stand at just over €440 billion, the bulk of which is held by the big three – AIB, Bank of Ireland and Ulster Bank. The banks' total loan book has shrunk by nearly half over the past decade, owing to the regulation introduced and deleveraging undertaken in the wake of the financial crisis. However, the sector continues to wield significant lending power, and this has significant social, economic and environmental implications.

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1 This section broadly follows the same structure as the hugely valuable and now sadly overlooked report commissioned by the British Labour Party: Daniela Gabor with Yannis Dafermos, Maria Nikolaidi, Peter Rice, Frank van Lerven, Robert Kerslake, Ann Pettifor and Michael Jacobs, *Finance and Climate Change: A Progressive Green Finance Strategy for the UK* **https://labour.org.uk/wp-content/uploads/2019/11/12851_19-Finance-and-Climate-Change-Report.pdf**.

2 Phillips and Rozworski, 'Planning the Good Anthropocene', *Jacobin*, 15 August 2017, **https://jacobinmag.com/2017/08/planning-the-good-anthropocene**.

3 Ann Pettifor, *The Case for a Green New Deal* (London: Verso, 2019), pp. 8-9.

4 Nick Shaxson, 'How Ireland became an offshore financial centre', *Tax Justice Network*, 11 November 2015, **https://www.taxjustice.net/2015/11/11/how-ireland-became-an-offshore-financial-centre/**.

Property-related lending accounts for 68% of Irish banks' loan book, which is higher than the EU average of 60% and not far off its pre-2008 crisis peak.[5] This concentration of lending carries a huge financial risk, namely the banks' exposure to another major collapse in the property market. At the same time, the carbon footprint of Irish mortgages is potentially very high. The residential sector accounts for a quarter of the energy used in Ireland, and is responsible for a quarter of energy-related CO2 emissions. Irish homes emit 60% more CO2 than the average EU home.[6] While there has been a dramatic improvement in the energy efficiency of new homes, slow progress in retrofitting older inefficient homes ensures that the mortgages covering these properties will continue having a substantial indirect impact on carbon emissions.

This is to say nothing of the construction sector's broader environmental impact due to raw material extraction, haulage, energy consumption, pollution, land use, waste and so on. Voices in building and construction have begun to outline how they intend to accelerate decarbonisation by tackling 'embodied carbon' – the greenhouse gases emitted during the building process – and proposed a series of strong regulatory measures that would support this.[7] But the Irish context also raises the fundamental issue of what is being built, where and for what purpose. Only a change in Government policy can move the sector away from building offices, hotels and expensive apartments for speculative gains and towards the things society needs, limiting unnecessary activity that adds to the carbon footprint.

Outside of property, and excluding financial intermediation, manufacturing accounts for the greatest share of the Irish domestic bank lending to private enterprises. As of March 2020, outstanding loans to manufacturing firms stood at nearly €26 billion, or roughly 14% of total lending to Irish resident and non-resident companies. This is significant as industry is responsible for more than a fifth (21.3%) of Ireland's carbon emissions, not to mention the wider environmental impact of manufacturing supply chains.

The Irish financial sector's relationship with the fossil fuel industry is somewhat less clear-cut. A new report by the Rainforest Action Network has revealed that 35 of the world's biggest banks have funnelled a total of $2.7 trillion directly into fossil fuels in the four years since the Paris Agreement. The report features no Irish banks, although the Ulster Bank is part of RBS, which makes the list with over $12 billion in financing to the fossil fuel sector.

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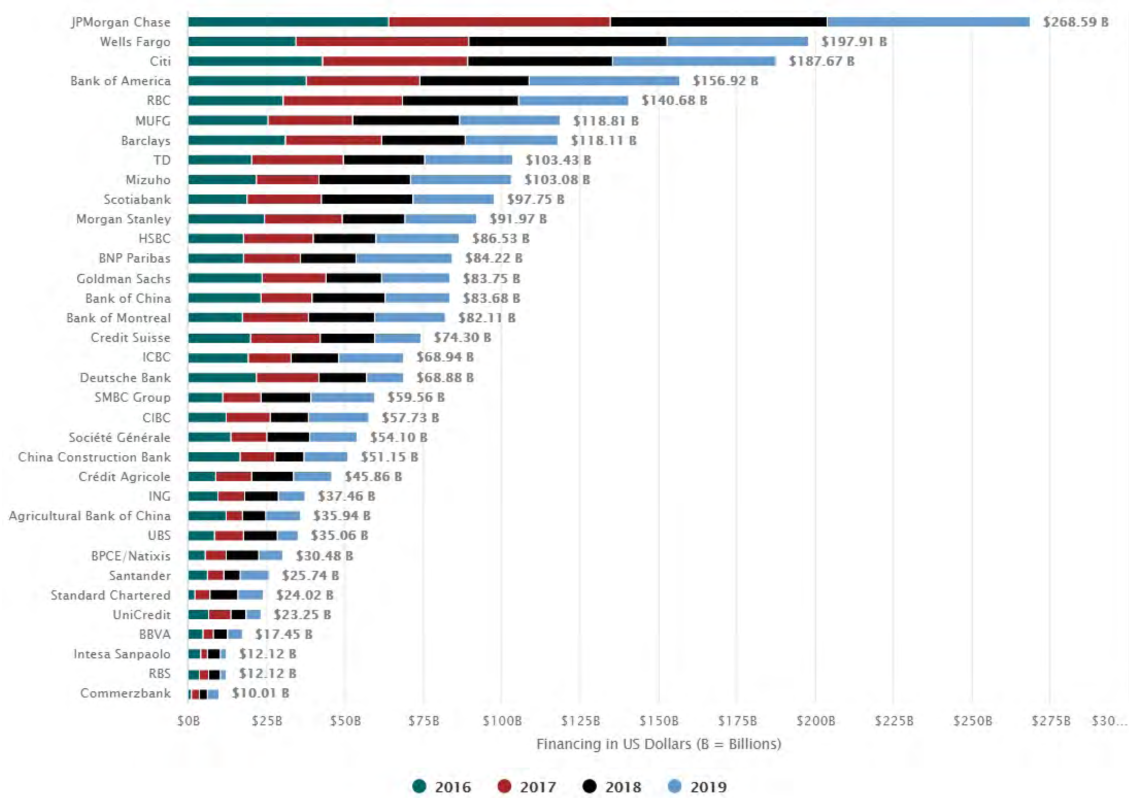
5 Central Bank of Ireland, *Systemic Risk Pack* (March 2019), p. 10, **https://centralbank.ie/docs/default-source/publications/systemic-risk-pack/systemic-risk-pack-march-20191368d8134644629bacc1ff0000269695.pdf?sfvrsn=10**.

6 SEAI, *Energy in the Residential Sector* (April 2018), **https://static.rasset.ie/documents/news/2018/04/energy-in-the-residential-sector-2018-final.pdf**.

7 World Green Building Council, *Bringing embodied carbon upfront: Coordinated action for the building and construction sector to tackle embodied carbon* (2019), **https://www.igbc.ie/wp-content/uploads/2019/09/2.-WorldGBC_Bringing_Embodied_Carbon_Upfront_CONFIDENTIAL_180919_media-release-v4-with-IGBC-logo.pdf**.

Figure 11. Total fossil fuel financing by year (Source: RAN, 2020)[8]



The extent of lending and underwriting to the fossil fuel sector among Irish domestic banks is unclear from official data, and does not feature in their individual voluntary disclosures. Judging by Central Bank figures, direct lending to fossil fuel activities is likely to account for no more than around 4% of total credit advanced to private enterprises.[9]

More significant perhaps is that 19 of the top 35 fossil fuel supporting banks globally, including the top five, are headquartered or have foreign branches/subsidiaries resident in Ireland for tax purposes. This brings to the fore the Irish state's important systemic role as a conduit for foreign capital – that is, a low-tax intermediary for the institutions involved in financing profit-seeking strategies that are driving climate change and environmental destabilisation.

Since the establishment of the IFSC, the Irish financial sector has rapidly expanded to become a major location for international insurance, asset management, investment funds, special purpose entities and aviation leasing, which has encouraged the growth of specialist legal, accounting and tax services. The composition of the Irish financial system has shifted dramatically over the past decade, going from an even balance between bank and non-bank financial activities to a situation where the shadow/market-based finance now dominates with 80% of total Irish financial assets (Figure 12).

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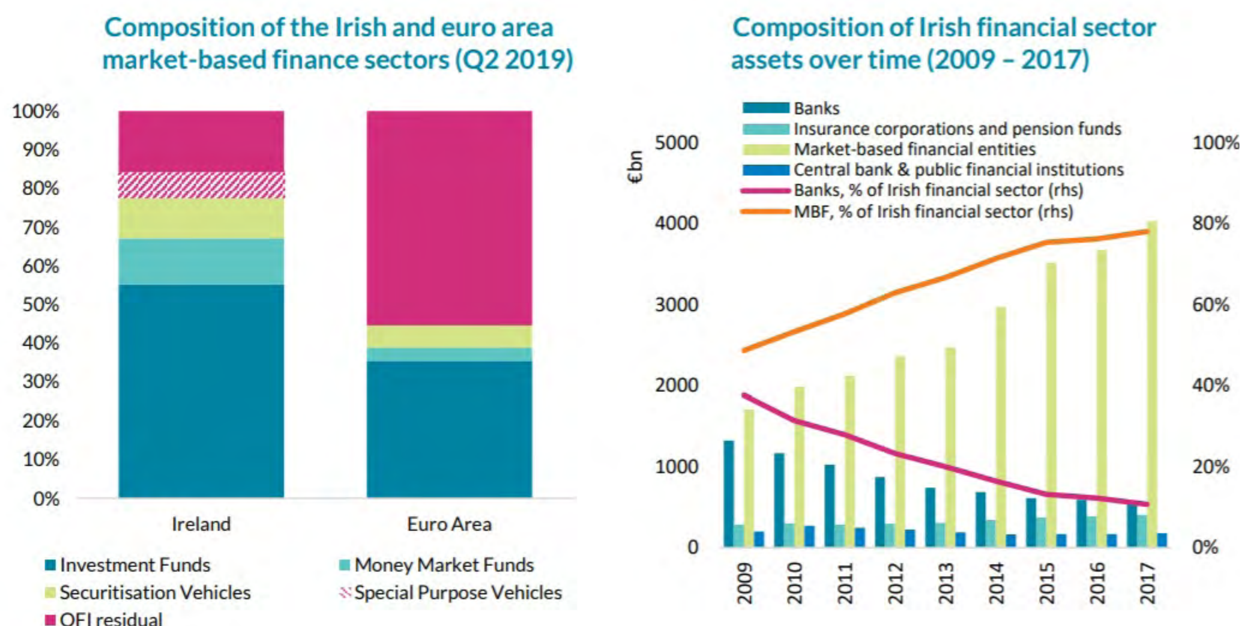
8 Rainforest Action Network, BankTrack, Indigenous Environmental Network, Oil Change International, Reclaim Finance and the Sierra Club, *Banking on Climate Change: Fossil Fuel Report* (2020), **https://www.ran.org/bankingonclimatechange2020/**.

9 Central Bank of Ireland, SME and Large Enterprise Credit and Deposits, Table A.14 Credit Advanced to Irish Resident Private-Sector Enterprises, and Table A. 15 Credit Advanced to Non-Irish Resident Private-Sector Enterprises, **https://www.centralbank.ie/statistics/data-and-analysis/credit-and-banking-statistics/sme-large-enterprise-credit-and-deposits**.

Figure 12. Size and composition of the Irish bank and non-bank financial sectors (Source: Central Bank of Ireland, 2019)[10]



This trend broadly corresponds with the growth of shadow banking/market-based finance globally, however the Irish sector has grown at a much faster rate than in the euro area. This is largely due to the rapid expansion of investment funds domiciled in Ireland, which have increased fourfold to reach €3.2 trillion.[11] Data gaps and problems of secrecy mean that regulators may be underestimating the size and overall risk posed by shadow banking in Ireland.[12] But even according to official estimates, Ireland is now the sixth largest shadow banking jurisdiction in the world and third largest in the eurozone. At €4.5 trillion, Ireland's shadow banking/market-based finance market is 22 times the value of the domestic economy in GNI* terms, compared with 2.8 times in the euro area and 6 times in the US.[13] The financial institutions operating in this unregulated sector include some of the world's biggest investment funds and asset managers such as BlackRock, Vanguard and State Street, which have a large proportion of their portfolios in fossil fuels and other carbon-intensive sectors.[14]

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10 Simone Cima, Neill Killeen and Vasileios Madouros, 'Mapping Market-Based Finance in Ireland', Central Bank of Ireland Financial Stability Notes, Vol. 2019, No. 17 (December 2019), p. 3, **https://www.centralbank.ie/docs/default-source/publications/financial-stability-notes/no--17-mapping-market-based-finance-in-ireland-(cima-killeen-and-madouros).pdf**.

11 Ibid., p. 2.

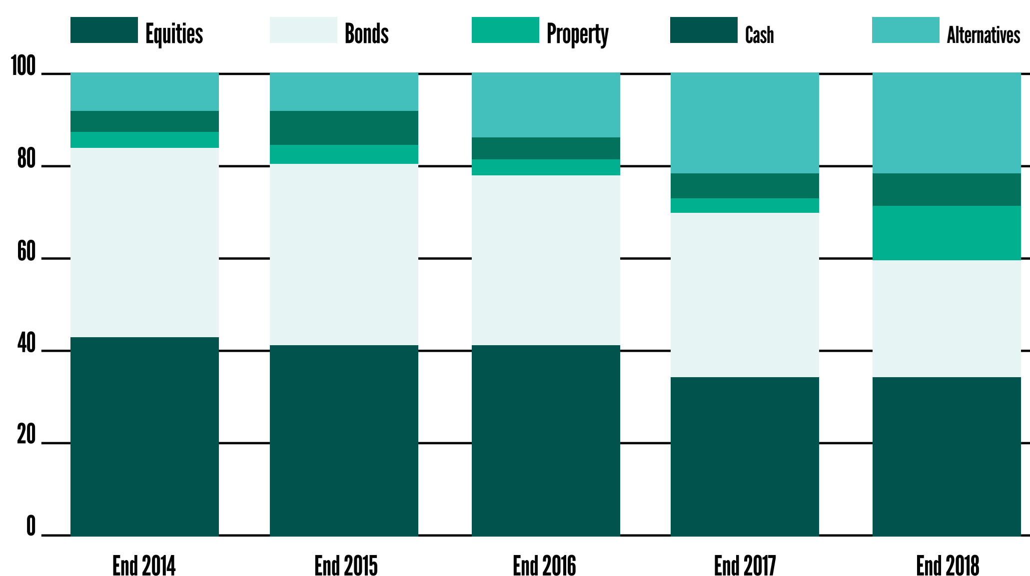
12 Jim Stewart and Cillian Doyle, 'The measurement and regulation of shadow banking in Ireland', *Journal of Financial Regulation and Compliance*, Vol. 25, No. 4 (2017), pp. 396.

13 Cima et al., 'Mapping Market-Based Finance in Ireland', p. 5.

14 InfluenceMap, *Asset Managers and Climate Change: How the sector performs on portfolios, engagement and resolutions* (November 2019), **https://influencemap.org/report/FinanceMap-Launch-Report-f80b653f6a631cec947a07e44ae4a4a7**.

A final and brief note is necessary on Irish pension fund holdings and investments.[15] The latest figures indicate that there are 570 active defined benefit (DB) schemes in Ireland with total assets of €90.7 billion, while the assets of defined contribution (DC) schemes have increased to €52.6 billion as state pensions continue to be run down in favour of private pensions.[16] The assets of DB pension schemes alone are equal to nearly half (46%) of Ireland's GNI*, which underscores the potential for these funds to play a major part in supporting a just climate transition. As Figure 13 shows, Irish DB pension funds have been part of a global shift away from equity investment, owing to falling returns and the economic uncertainty that has been a permanent feature of the capitalist system since the crash.

Figure 13. Allocation of Irish defined benefit scheme assets (Source: Moriarty, 2020)[17]



Equity or traditional stocks now accounts for 27% of Irish DB assets, with 40% in bonds and 21.6% in alternatives such as private equity, hedge funds, real estate and infrastructure. Information gathered by the Pensions Authority indicates that the bonds are mostly made up by EU government bonds, which are generally considered to carry lower risk than private investments.[18] However, that leaves more than half of total DB assets (more than €45 billion in cash terms) invested in activities which are not only liable to be high risk but also carbon-intensive.

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15 The Central Bank has now begun to collect detailed statistical information on the pension fund sector, although this information is not yet available and so we have to rely on aggregate data provided by the Pensions Authority and investor surveys.

16 The Pensions Authority, 'Defined Benefit schemes: Review of 2019 statistics' (June 2020), **https://www.pensionsauthority.ie/en/news_press/news_press_archive/the_pensions_authority_publishes_statistics_for_defined_benefit_schemes.pdf**; Jerry Moriarty, 'IAPF view: A disappointing year', *IPE Magazine* (February 2020), **https://www.ipe.com/reports/iapf-view-a-disappointing-year/10043505.article**.

17 Ibid.

18 The Pensions Authority, 'Defined benefit schemes'.

Physical and transition risks

Climate breakdown and a zero-carbon transition will both have far-reaching impacts on the economy. The latest UN IPCC report estimates that the global economic damages that will be accrued under warming of 1.5°C and 2°C by 2040 could be $54 trillion and $69 trillion, respectively.[19] These impacts are already being felt across the planet, particularly in the low-latitude regions disproportionately affected by global warming. At the same time, the financial cost of investment in climate transition and mitigation is likely to be lower than the cost of inaction, in economic and real human terms. However, this transition has implications for the current functioning and future direction of the economy and financial system. There are broadly two ways in which climate change poses risks to the financial system. The first is through what are described as 'physical risks', which refer to the impact of climate-related extreme weather events such as intense heatwaves, floods, drought or storms, as well as longer term changes in the environment such as rising sea levels. The direct economic cost of natural disasters and extreme weather events has increased fivefold over the past thirty years, from $40 billion on average per year in the 1980s to around US $200 billion today.[20]

There is a lack of knowledge about the risks posed by these events in Ireland and how transformative change should be managed. However, initial research shows that at least 62,000 homes and 8,000 further properties across the state are at risk of coastal flooding, the biggest proportion of these in Dublin.[21] This has serious implications for Irish insurance companies, who may face an increase in claims, increase premiums or even decide to stop providing certain forms of cover altogether. The international focus of Ireland's insurance sector makes it even more susceptible to climate-related and economic shocks abroad. For many households and businesses, meanwhile, the future will be precarious if they are unable to insure themselves against such adverse weather events, either due to the cost of insurance or because they cannot get access to the finance.

We also recall that property-related lending accounts for 68% of the banks' assets, making these assets highly exposed to physical risks, while over half of total household net worth in Ireland is tied up in property.[22] Climate-related events could therefore have a major impact on the collateral and financial assets held by banks, as well as on the wealth and credit-worthiness of a significant number of households and businesses. This situation is rendered all the more volatile by the inflated value of land and property in Ireland. In addition, as Daniela Gabor and colleagues have noted, physical damages can have various indirect impacts on finance through the disruption of supply chains, dampened household consumption and diminished

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19 IPCC, *Special Report on Global Warming of 1.5°C* (2018), **https://www.ipcc.ch/site/assets/uploads/sites/2/2019/06/SR15_Full_Report_High_Res.pdf**.

20 Gabor et al., *Finance and Climate Change*, p. 16.

21 **Pádraig Hoare**, '70,000 homes and businesses at flood risk', *Irish Examiner*, 24 May 2020, **https://www.irishexaminer.com/breakingnews/views/analysis/padraig-hoare-70000-homes-and-businesses-at-flood-risk-1001435.html**.

22 Central Bank of Ireland, Quarterly Financial Accounts Q4 2019, **https://www.centralbank.ie/statistics/data-and-analysis/financial-accounts**.

private sector investment, which can translate into credit risks for borrowers and the financial banks themselves.[23] The destruction wrought by a succession of natural disasters leading up to the coronavirus outbreak has given us a brief glimpse of how these physical and economic risks will, if left unchecked, come together with increasingly dire consequences in the future.

Transition risks, on the other hand, refer to the potential financial impacts that may arise from climate mitigation and the process of transitioning to a zero-carbon economy. These transition risks can emerge from three sources: policy changes, technological advances and changes to consumer preferences.[24] One of capital's biggest concerns here relates to 'stranded assets'. According to one scenario, 87% of coal, 42% of oil and 26% of natural gas would need to be left in the ground if we are to limit global warming to 1.8°C. However, this would result in existing fossil fuel investments becoming stranded – i.e. losing their value – with a significant knock-on effect on the value of related infrastructural investments, carbon-intensive sectors and the industries that depend, directly or indirectly, on these sectors to sell their services and products. As Michael Roberts explains, 'The lower the target limit on greenhouse gas emissions, the greater the risk of "stranded assets" (unused) on the books of the companies. The size of stranded assets would depend of the temperature target, which in turn would depend on government policy decisions and on technology innovations to reduce energy use and carbon emissions over the next generation.'[25]

Estimates of the value of stranded assets vary wildly. Some central banks have stated that the losses could be as much as $20 trillion for a broad range of fossil fuel-related sectors, the Bank of England warning that this could lead to a 'climate Minsky moment' for the global economic and financial system.[26] A much higher figure has been provided by the Citigroup, who say that up to $100 trillion could be wiped out if the fossil fuel industry continues to develop reserves as the world moves into alignment with the Paris Agreement.[27] These threats are very quickly becoming a reality, as the share prices of coal, oil and gas producers have been in steady decline for the past number of years, oil producers alone losing $400 billion in market value since 2017.[28] The Carbon Tracker project notes that the COVID-19 crisis has served to accelerate the negative impact of clean technologies and government policy on the demand for fossil fuels, putting nearly two-thirds of future profits in the sector at imminent risk.[29]

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23 Gabor et al., *Finance and Climate Change*, p. 17.

24 Ibid., p. 18.

25 Michael Roberts, 'The climate and the fat tail risk', *Michael Roberts Blog*, 11 February 2020, **https://thenextrecession.wordpress.com/2020/02/11/the-climate-and-the-fat-tail-risk/?fbclid=IwAR0HX-8a95APqGcpwziNUOow4UZA0Kukt0vAooQbQiu7Ez4uiFc0j7tqa_0s**.

26 Sarah Breeden, 'Avoiding the storm: Climate change and the financial system', Speech given at the Official Monetary & Financial Institutions Forum, London, 15 April 2019, **https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/avoiding-the-storm-climate-change-and-the-financial-system-speech-by-sarah-breeden.pdf?la=en&hash=AC28DFEFED7B14A197E6B0CB48044D06F4E38E84**.

27 Citi GPS, *Energy Darwinism II: Why a Low Carbon Future Doesn't Have to Cost the Earth* (2015), **https://ir.citi.com/E8%2B83ZXr1vd%2Fqyim0DizLrUxw2FvuAQ2jOlmkGzr4ffw4YJCK8s0q2W58AkV%2Fyp-GoKD74zHfji8%3D**.

28 Alan Livsey, 'Lex in depth: the $900bn cost of "stranded energy assets"', *Financial Times*, 4 February 2020, **https://www.ft.com/content/95efca74-4299-11ea-a43a-c4b328d9061c?sharetype=blocked**.

29 Carbon Tracker, *Decline and Fall: The Size & Vulnerability of the Fossil Fuel System* (June 2020), **https://carbontracker.org/reports/decline-and-fall/**.

Figure 14. Oil and gas stocks' importance in the US stock market (Source: Crowley, 2020)[30]

By legislating for a phased end to fossil fuel exploration in Ireland, and setting in train the divestment of the ISIF's €318 million holdings in the industry, the Irish Government has taken not insignificant steps to pre-empt transition risks. That the Government is the majority owner of key utilities such as the Electricity Supply Board (ESB) should also, in theory, give the state greater control over how the transition and associated financial implications are to be managed.[31] However, this must be set against the Government's failure on renewables and the ESB's planned expansion of Ireland's vast gas network at a time when gas assets are being displaced and written down.[32] What is needed, and signally absent, is an ambitious, equitable strategy to phase out or repurpose existing fossil fuel infrastructure while scrapping plans for new gas-powered plants.

The transition risks to the Irish financial sector as a whole are unclear. Given their ostensibly low level of lending to fossil fuel activities, the direct exposure of domestic banks may not be as significant as in other parts of Europe. Irish banks may be more likely to by the knock-on effects of a low or zero-carbon transition on the activities of manufacturers and other firms that are linked into the fortunes of fossil fuel and carbon-intensive industries.

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30 Kevin Crowley, 'A Tale of Two Oil Giants With Two Strategies That Aren't Working', *Bloomberg Green*, 1 February 2020, **https://www.bloomberg.com/news/articles/2020-02-01/tale-of-two-oil-giants-with-two-strategies-that-aren-t-working**.

31 Celine McInerney, Conor Hickey, Paul Deane, Joseph Curtin and Brian Ó Gallachóir, *Fossil Fuel Lock-in in Ireland: How Much Value is at Risk?*, EPA Research Report No. 302 (2015), Chapter 5, **http://www.epa.ie/pubs/reports/research/climate/Research_Report_302.pdf**.

32 Barry O'Halloran, 'ESB could spend €700m on plan to meet surging electricity demand', *Irish Times*, 5 April 2019, **https://www.irishtimes.com/business/energy-and-resources/esb-could-spend-700m-on-plan-to-meet-surging-electricity-demand-1.3849983**.

In other parts of the Irish financial system the threats of instability and disruption seem more apparent. Shadow banking/market-based finance is an increasingly important source of funds for banks and the real economy, accounting for just under half (48.5%) of total financial assets globally.[33] It has also been noted that fossil fuel and carbon-intensive companies account for one-third of global equity and leveraged loans.[34] Consequently, when we consider the disproportionate role of Irish shadow banking/market-based finance in an interconnected global system, the potential for Ireland to act as a transmitter of transition risks and economic shocks becomes clear.

Irish pension funds pose a threat of a quantitatively smaller and qualitatively different order. But if we were to assume that upwards of one-third of pension fund assets are in carbon-intensive sectors, the transition to a zero-carbon economy could have a substantial impact on the investments and future incomes of a significant number of households, with knock-on effects for the economy and financial system. In this regard, the efforts of pension fund investors to combat climate breakdown and safeguard people's economic security could – and arguably should – go hand in hand.

4.2 The policy and regulatory environment

Irish Government policy on climate change investment has followed a familiar pattern of reliance on the private sector. Private investment is expected to address large parts of the National Development Plan (NDP), where one would expect public investment to predominate. This is based on the notion that market-based nudges and incentives will prompt a reallocation of private capital towards energy efficiency and decarbonisation projects. On top of the existing suite of tax breaks and grants provided through agencies such as the SEAI, Enterprise Ireland and the Industrial Development Authority (IDA),[35] the €500 million Climate Action Fund is designed to 'leverage investment by public and private bodies'.[36]

The NDP also indicates that Public Private Partnerships (PPPs) will play a significant role in climate-related public infrastructural investment, particularly where the projects 'have the potential for user charges or which offer the potential to generate significant third party income'.[37] In other words, we may see a continuing trend of

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33 Financial Stability Board, *Global Monitoring Report on Non-Bank Financial Intermediation 2019* **(Basel: FSB, 2019), p. 11.**

34 Bank of England Prudential Regulation Authority, *The impact of climate change on the UK insurance sector* (September 2015), p. 52, **https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/publication/impact-of-climate-change-on-the-uk-insurance-sector.pdf**.

35 See Environmental Protection Agency (EPA), *Developing a Green Enterprise: A guide, for businesses and institutions, on supports available in Ireland for developing resource efficient practices* (2020), **https://www.epa.ie/pubs/reports/other/corporate/Developing%20a%20Green%20Enterprise%20Navigator.pdf**.

36 Government of Ireland, *Project Ireland 2040: National Development Plan 2018-2027* (2018), p. 77.

37 Ibid., p. 102.

the Irish state 'de-risking' private capital investment in green infrastructure projects, including by privatising and underwriting the income streams derived from the assets concerned. This is despite the increasing cost, risk and complexity of PPPs in Ireland and worldwide, and the basic fact that some of the most badly-needed infrastructure is inherently unprofitable.[38] One particularly egregious example of this is the recurring trend of the Irish Government using public funds to compensate private operators for the lack of profitability deriving from Ireland's under-used motorway tolls.

The Government's approach to the financial sector can be viewed in the same vein. Unlike the UK, Ireland does not have a bespoke green finance strategy. However, the overarching strategy for financial services, Ireland for Finance (2019), identifies sustainable finance as one of its three 'horizontal priorities', and notes that EU developments 'represent a significant opportunity for Ireland to be in the vanguard of this growing area'.[39] As in the case of the British Government's strategy, the overall thrust of Ireland for Finance can be best characterised as 'too much carrot, too little stick'.[40] While the strategy highlights opportunities for collaboration and engagement in sustainable finance, loosely defined, it gives highest priority to ensuring that Ireland is 'the most competitive location in which to locate and from which to conduct activities'.[41] As a result, the strategy is highly market-based and voluntarist, offering no specific legislative or regulatory commitments that would transform the basis upon which the sector currently operates. One reason for this is that the Government-appointed Industry Advisory Committee (IAC) tasked with the co-design and implementation of IFS, is composed of major banks, asset managers and consultancy firms who will move at their own pace and on their own terms if given the room to do so.[42]

The Irish Government has been slow respond to the policy and regulatory developments that are taking place at an EU and international level. The main initiative coming from the EU is the Commission's Action Plan on Sustainable Finance, initially published in 2018 and now up for renewal.[43] As part of this Action Plan an EU Technical Expert Group (TEG) has spent the past two years working on a common classification system – or taxonomy – to determine which activities can be regarded as sustainable. An early draft of the Taxonomy conceived of 'sustainable'

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38 Jesse Griffiths and María José Romero, *Three compelling reasons why the G20's plan for an infrastructure asset class is fundamentally flawed* (July 2018), **https://eurodad.org/files/pdf/1546931-three-compelling-reasons-why-the-g20-s-plan-for-an-infrastructure-asset-class-is-fundamentally-flawed-1533475091.pdf**.

39 Government of Ireland, *Ireland for Finance: The strategy of the development of Ireland's international financial services sector to 2025* (April 2019), p. 19, **https://assets.gov.ie/24482/278893738e764db79c43eada83c030e3.pdf**.

40 Gabor et al., *Finance and Climate Change*, p. 23.

41 Government of Ireland, *Ireland for Finance*, p. 2.

42 Department of Finance, Industry Advisory Committee, **https://www.gov.ie/en/publication/452a1d-industry-advisory-committee-iac/#:~:text=The%20Industry%20Advisory%20Committee%20(IAC,with%20diverse%20experience%20and%20perspectives.**.

43 European Commission, Consultation document: consultation on the renewed sustainable finance strategy, **https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/2020-sustainable-finance-strategy-consultation-document_en.pdf**.

activities as those that substantially contribute to at least one of six environmental objectives,[44] and do no significant harm to the others. But, as Gabor has noted, 'heavy lobbying' has resulted in the Taxonomy being expanded to include 'sustainable', 'enabling' and 'transition' categories, the latter providing a loophole for heavy polluting activities that are deemed to have reduced their environmental impact.[45]

While this opens the door for greenwashing to attract public and private funding, the Taxonomy Regulation agreed at a political level stops far short of the TEG's recommendation that a 'brown' taxonomy on environmentally harmful activities be included.[46] What this means is that around 6,000 large EU-listed companies that fall under the scope of the Non-Financial Reporting Directive (NFRD)[47] will be required to disclose the nature and extent to which their activities are Taxonomy-aligned, while credit institutions and investors will only need to report on the products they claim have environmentally sustainable objectives. The Taxonomy does not therefore apply any penalties or binding obligations on the decisions of financial institutions and investors, but rather places the emphasis on ensuring that these decisions are more transparent and better informed.

Similar problems apply to other aspects of the EU's Action Plan. For example, the common EU Green Bond Standard (GBS) proposed by the TEG will lean on the Taxonomy's flawed criteria to determine which products qualify for green bond funding. It is also entirely voluntary, and will not therefore legally prevent issuers from labelling bonds green when they are nothing of the sort. More seriously, the European Commission has come under fire for hiring BlackRock to develop the tools and mechanisms that that will integrate environmental, social and governance (ESG) factors into EU banking regulation, despite the firm's stake in carbon-intensive sectors and record of routinely voting against climate-related shareholder resolutions.[48] Concerns about this appointment have been dismissed by the Commission, however the decision is now the subject of an investigation by the EU Ombudsman following complaints by political representatives and civil society groups.[49]

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44 These are (i) climate change mitigation; (ii) climate change adaptation; (iii) sustainable use and protection of sustainable water and marine sources; (iv) transition to a circular economy, waste prevention and recycling; (v) pollution prevention and control; and (vi) protection of healthy ecosystems.

45 Daniela Gabor, 'The Wall Street Climate Consensus', *Tax Justice Focus*, Vol. 11, No. 3 (2020), p. 8.

46 Position of the Council at first reading with a view to the adoption of a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, **https://data.consilium.europa.eu/doc/document/ST-5639-2020-REV-2/en/pdf**; EU Technical Expert Group on Sustainable Finance, *Taxonomy: Final report of the Technical Expert Group on Sustainable Finance* (March 2020), **https://ec.europa.eu/info/sites/info/files/business_economy_euro/banking_and_finance/documents/200309-sustainable-finance-teg-final-report-taxonomy_en.pdf**

47 See Datamaran, 'The Non-Financial Reporting Directive: What You Need to Know', **https://www.datamaran.com/non-financial-reporting-directive/**.

48 ShareAction, *Voting Matters Are asset managers using their proxy votes for climate action?* (November 2019), **https://shareaction.org/wp-content/uploads/2019/11/Voting-Matters.pdf**.

49 Foo Yun Chee, 'EU investigates decision to hire BlackRock to advise on green rules for banks', *Reuters UK*, 8 July 2020, **https://uk.reuters.com/article/us-eu-blackrock-ombudsman/eu-investigates-decision-to-hire-blackrock-to-advise-on-green-rules-for-banks-idUKKBN249223**.

The second major international initiative to emerge in recent years is the Financial Stability Board (FSB)'s Task Force on Climate-related Financial Disclosures (TCFD), which aims to provide firms with the tools to identify climate-related risks and disclose these risks accordingly. Established in 2015, the TCFD produced its final report in 2017 and has since been working to promote and monitor the adoption of its key recommendations. In these recommendations the TCFD suggests that companies and financial institutions disclose their governance around climate-related risks; the actual and potential impact of climate-related risks on the organisation's businesses, strategy, and financial planning; the processes used to identify, assess and manage climate-related risks; and the metrics and targets used to assess and tackle climate-related risks. Significantly, the TCFD also suggests that the financial impact of physical and transition risks could be factored into the income statement, cash flow statement and balance sheet of an organisation.[50] Although the EU has incorporated the key TCFD recommendations into its non-binding guidelines on climate-related reporting, it has not yet signalled an intention to put them on a mandatory footing.

To a greater or lesser degree, the EU and TCFD agendas are grounded in a flawed 'market-efficient hypothesis', which assumes that if the risks are made clear, investors will respond rationally and in a way that supports climate action goals.[51] Yet, despite these shortcomings, their provisions exceed the Irish Government's willingness to proactively confront the issues at stake. The inadequacy of the Irish Sovereign Green Bond Framework is already evident and will become increasingly so as the EU GBS is embedded. That Ireland for Finance does not even refer to, much less embrace, the prospect of an EU-wide taxonomy gives some indication of the consensus that existed between the Irish state and vested financial interests at the time of its drafting. Equally, we can find no evidence that the Government has engaged with or promoted the TCFD agenda either domestically or on the international stage. It should be acknowledged that the Greens have secured the inclusion of climate stress-tests of the financial sector – one of the TCFD's bolder recommendations – in the new PfG. However, two notes of caution need to be sounded here. First, the PfG also commits to the full and unadulterated implementation of the Ireland for Finance strategy which, as we have seen, has conflicting objectives. Second, it may be unrealistic to expect the two bigger parties in government or key players in the financial sector to accede to these changes without certain tweaks, get-out clauses or compensatory measures. Such is the balance of forces and the way business is conducted in Ireland.

This leads us, finally, to the issue of regulation. Regulation of the Irish financial sector is the responsibility of the Central Bank of Ireland, which has a broad range of powers for authorisation, supervision and enforcement within the legislative and policy framework determined at an EU level. This is in addition to its very limited responsibility for monetary policy, as part of the Eurosystem of central banks.

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50 TCFD, *Recommendations of the Task Force on Climate-related Financial Disclosures* (June 2017), pp. 8-11, **https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-2017-TCFD-Report-11052018.pdf**.

51 Nadia Ameli, Paul Drummond, Alexander Bisaro, Michael Grubb and Hugues Chenet, 'Climate finance and disclosure for institutional investors: why transparency is not enough', *Climatic Action* (online), 31 October 2019, **https://link.springer.com/article/10.1007/s10584-019-02542-2**.

Beginning with the now former Governor Philip Lane, [52] senior Bank officials have begun to publicly acknowledge the implications of climate breakdown and their important role given the size and nature of the Irish financial sector.[53] As a signal of its intent, the Bank has joined the Network for Greening the Financial System (NGFS), a coalition of central banks and supervisors convened to promote international best practice in addressing climate-related risks,[54] and pledged to gradually embed these risks into its financial stability assessments and supervision of financial actors in Ireland. It could be argued, then, that the Bank is doing what it can within the bounds of its mandate and the policy and legislative framework.

But is this enough? Could the Bank, and the Pensions Authority for that matter, make better use of their powers to actively curb and penalise brown activities, thereby doing more to influence the direction of regulatory, policy and investment trends rather merely keeping pace with them? Before addressing these questions, we first need to establish the extent to which the financial system is decarbonising.

4.3 Recent trends in green finance

Major hopes have been expressed that public opinion mobilises, the regulatory context evolves and carbon-intensive activities become more risky and expensive, the private sector will respond by shifting rapidly towards greener lending and investment. On the surface at least, there seem to be grounds for optimism that this is happening. BloombergNEF, the energy research organisation, reports that global green bond issuance reached a new record of $271 billion in 2019, up from $182 billion in 2018. The volume of sustainability-linked loans (SLLs), which offer a lower interest rate linked to the borrower's performance on ESG criteria, more than doubled to $122 billion in the same period.

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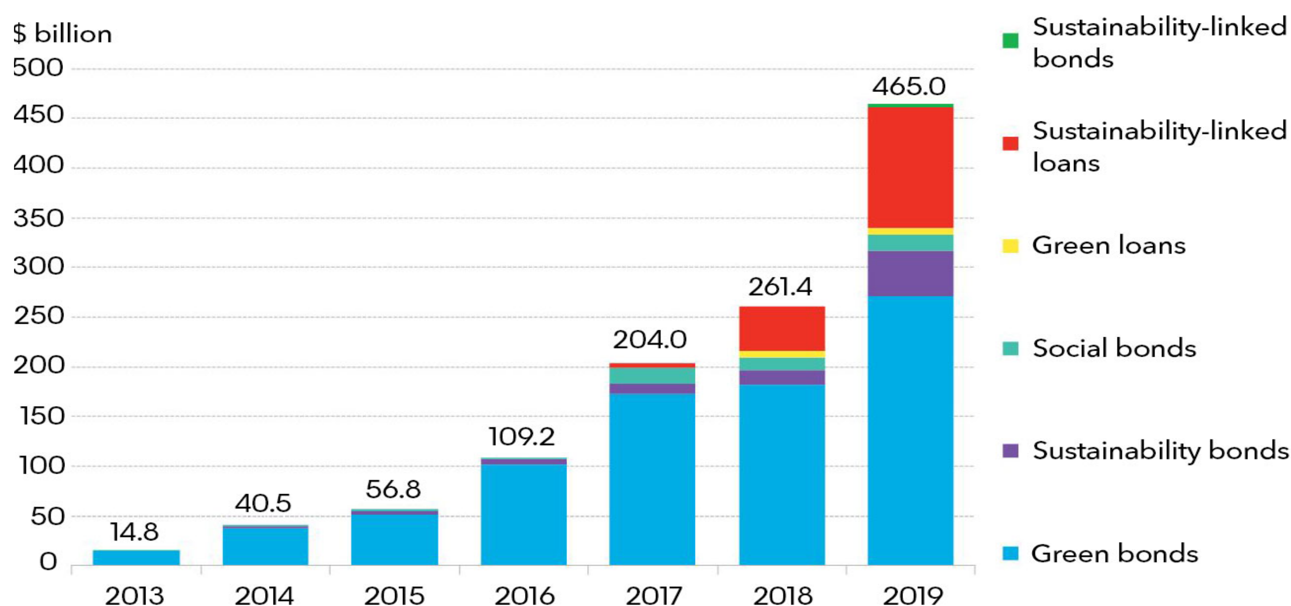
52 Philip R. Lane, 'Climate Change and the Irish Financial System', Central Bank of Ireland Economic Letter, Vol. 2019, No. 1 (February 2019), **https://www.centralbank.ie/docs/default-source/publications/economic-letters/vol-2019-no-1-climate-change-and-the-irish-financial-system-(lane).pdf?sfvrsn=2**.

53 See, for example, Deputy Governor Sharon Donnery, 'Risks and opportunities from climate change', Address to Department of Finance and Sustainable Nation Ireland Conference, 16 May 2019, **https://www.centralbank.ie/news/article/risks-and-opportunities-from-climate-change-sharon-donnery**; Gerry Cross, Director Financial Regulation Policy and Risk, 'Accountability and sustainability: key themes in financial regulation', Remarks delivered to ICSA Ireland Conference 2019: Governance beyond Compliance, 16 May 2019, **https://www.centralbank.ie/news/article/key-themes-in-financial-regulation-gerry-cross**; Vasileios Madouros, Director for Financial Stability, 'Towards a climate-resilient financial system', Speech delivered as part of Climate Finance Week, 5 November 2019, **https://www.centralbank.ie/news/article/speech-vasileios-madouros-towards-a-climate-resilient-financial-system-05-november-2019**.

54 NGFS, *A call for action: Climate change as a source of financial risk* (April 2019), **https://www.banque-france.fr/sites/default/files/media/2019/04/17/ngfs_first_comprehensive_report_-_17042019_0.pdf**.

Figure 15. Global sustainable debt issuance, 2013-19 (Bloomberg NEF, 2020)[55]



Source: BloombergNEF, Bloomberg L.P.

There is also evidence of substantial growth in the ESG assets held by institutional investors, a trend encouraged by the impact of the coronavirus pandemic.[56] Surveys conducted with asset owners and managers indicate that ESG factors are becoming more prominent in their thinking and day-to-day practice.[57]

A more significant turn to greener finance perhaps can be found in the work of the Climate Action 100+ initiative, whose aim is to encourage 'systemically important' carbon emitters to align their activities with the Paris Agreement.[58] BlackRock, the world's largest private investor, became the latest high-profile signatory in January of this year, following heavy criticism that it was failing to match climate action rhetoric with action. More than 450 global investors with $40 trillion in assets under management have now signed on to the initiative.

Shareholder and divestment movements are meanwhile growing in strength and number, resulting in over 1,240 institutions with more than $14 trillion in assets committing to divest from fossil fuels.[59] Norway's $1 trillion sovereign wealth fund and New York City's $189 billion pension fund are among the biggest public investors to have divested, and pressure is building on UK institutional pension funds to divest in favour of supporting a low-carbon transition.

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55 BloombergNEF, 'Sustainable Debt Sees Record Issuance At $465Bn in 2019, Up 78% From 2018', 8 January 2020, **https://about.bnef.com/blog/sustainable-debt-sees-record-issuance-at-465bn-in-2019-up-78-from-2018/**.

56 Shanny Basar, 'ESG Assets Have Grown 15% Annually', *Markets Media*, 2 July 2020, **https://www.marketsmedia.com/esg-assets-have-grown-15-annually/**.

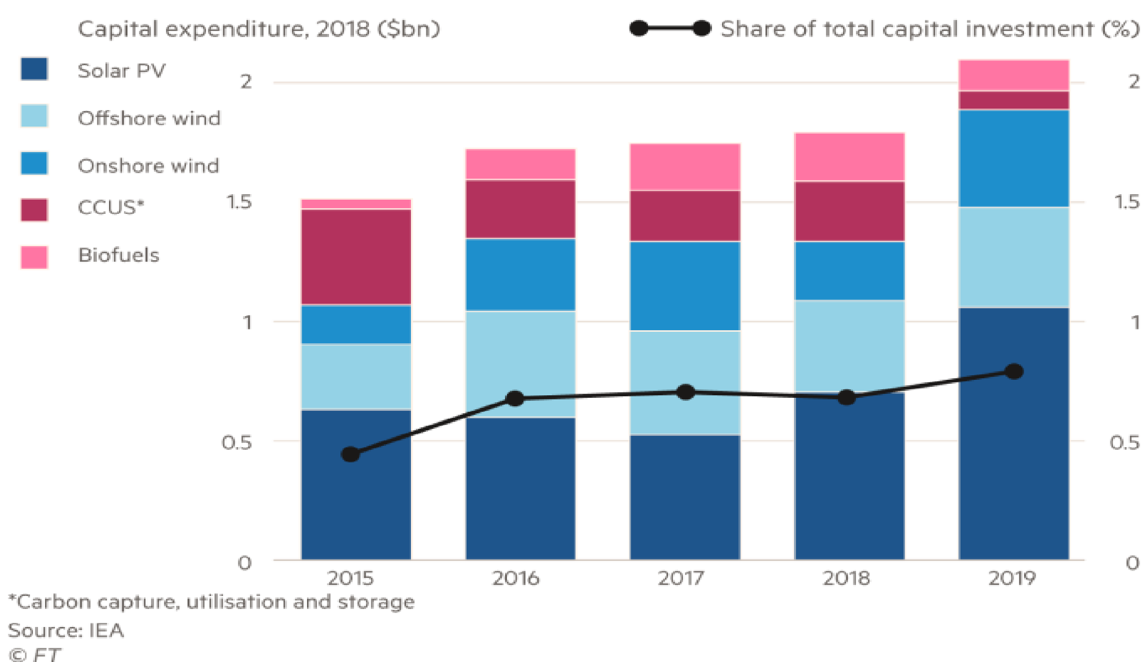
57 See, for example, BNP Paribas, *The ESG Global Investor Survey 2019*, **https://securities.bnpparibas.com/files/live/sites/web/files/medias/documents/esg/esg-global-survey-en-2019.pdf**.

58 Climate Action 100+, **https://climateaction100.wordpress.com/**.

59 Go Fossil Free, **https://gofossilfree.org/divestment/commitments/**.

Alongside these trends, however, there exist several countervailing tendencies in the practices of companies, credit institutions and investors. These arise from regulatory gaps, the obstinacy of profit-seeking strategies and a lack of clarity about what is green. Although some firms have responded to the climate crisis by working to wean themselves off oil and gas, many fossil fuel giants continue to factor in the value of reserves while putting less than 1% of total capital investment into low-carbon alternatives (Figure 16). Even those major oil firms that have stated decarbonisation ambitions are failing to 'recognise the finite limits that the energy transition places on current business models and their investment decisions'.[60] This threatens the achievement of Paris aligned goals, on the one hand, and increases the risk of stranded assets on the other.

Figure 16. Investment in new low-carbon projects by large fossil fuel companies, 2015-19 (Source: Livsey, 2020)[61]



Much of this would not be possible without the access to cheap credit provided by the financial sector. We have already seen how the world's biggest financial institutions are channelling huge volumes of credit to fossil fuel companies, despite there being few signs of major changes in the latter's practices. Specific criticisms have also been levied against Europe's banks for pursuing 'business as usual' policies in relation to high-carbon industries, which 'threaten to overshadow any positive impacts they might achieve through financing low-carbon solutions'.[62]

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60 Carbon Tracker, *Absolute Impact: Why oil majors' climate ambitions fall short of Paris limits* (June 2020), **https://carbontracker.org/reports/absolute-impact/**.

61 Livsey, 'Lex in depth'.

62 ShareAction, *Banking on a Low-Carbon Future II: A ranking of the 20 largest European banks' responses to climate change* (April 2020), **https://shareaction.org/wp-content/uploads/2020/04/ShareAction-Banking-Report-2020.pdf**.

It is not only commercial banks that are pumping vast amounts of liquidity into carbon-intensive sectors. The majority of government stimulus money announced in response to the coronavirus – $509bn and counting – has gone directly into high-carbon industries, fossil fuels included.[63] Oil majors such as Shell, ENI and Total have benefitted to the tune of €billions from the carbon bias in the ECB's Corporate Sector Purchase Programme (CSPP).[64] Likewise, the EIB has financed €28.7 billion of high-carbon projects since 2016, at the same time as positioning itself as Europe's climate bank.[65]

Low-carbon activities therefore account for a small fraction of overall lending and investment. Even the increasing popularity of ESG investing paints a flattering picture of the state of green finance, since the lack of rigorous, universal standards makes it easy for companies and asset managers to use ESG as a cover for extensive greenwashing.[66] Consequently, much of what passes for environmentally sound investment under ESG criteria is set to fall short of the green standards inscribed in the new EU Taxonomy. One major survey of European pension schemes appears to confirm that diversification into sustainability-linked investments does not necessarily imply support for decarbonisation strategies: approximately 8% of all schemes have allocated some of their assets into low-carbon areas (where exposure to fossil fuels is minimal), with only 3% allocating 10% or more of their assets to this theme. An even smaller proportion (2%) of schemes have considered using the SDG framework to measure the impact of their investments.[67]

4.3.1 Green finance trends in the Irish domestic banking sector

In Ireland, the response of the corporate and financial sectors to the emerging sustainability agenda tells a similar story. The Carbon Disclosure Project (CDP) states that there are 31 Irish companies participating in its climate change reporting initiative, two-thirds of them receiving a performance score of B- or higher. Half of Ireland's top 30 companies are now participating, with Kingspan and Accenture singled out for featuring in the CDP A list. On the other hand, 23 Irish firms have been given an F rating for refusing to disclose the environmental impact of their activities, Applegreen, Ryanair and Paddy Power making this list along with big developers such as Cairn Homes and Glenveagh Properties.[68]

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63 Fiona Harvey, 'Covid-19 relief for fossil fuel industries risks green recovery plans', *The Guardian*, 6 June 2020, **https://www.theguardian.com/environment/2020/jun/06/covid-19-relief-for-fossil-fuel-industries-risks-green-recovery-plans**.

64 InfluenceMap, 'The ECB's Pandemic-related Corporate Bond Purchasing', 15 April 2020, **https://influencemap.org/report/The-ECB-and-Pandemic-Bonds-ece9791d5425bf38b78d-f95a8376b358**.

65 Counter Balance, The EU Climate Bank: Greenwashing or a banking revolution? (June 2020), **http://www.counter-balance.org/wp-content/uploads/2020/07/EU-Climate-Bank-Report.pdf**.

66 Gabor et al., *Finance and Climate Change*, pp. 26.

67 Mercer, *European Asset Allocation Survey 2019* (2019), pp. 33-34, **https://info.mercer.com/rs/521-DEV-513/images/ie-2019-european-asset-allocation-survey-2019.pdf**.

68 CDP Ireland Network, *CDP Ireland Annual Report 2019* (February 2020), **http://www.cd-pirelandnetwork.net/uploads/8/8/7/7/88773346/cdp_ireland_2019_report_final_feb2020_pages.pdf**.

In the CDP's assessment, the majority state-owned AIB has begun to demonstrate aspects of best practice associated with environmental leadership, from the level of disclosure to the setting ambitious and meaningful climate action targets.

RBS/Ulster Bank, which is 62% owned by the British state, is taking some action to address environmental risks while Bank of Ireland is still at the stage of only developing its understanding of these issues. Permanent TSB has earned an F rating for three consecutive years due to its repeated failure to respond to the initiative.

Table 4 below provides a non-exhaustive list of green finance indicators that offer an initial impression of where each of the three main Irish retail banks are in terms of their existing commitments. ESG ratings are included more as a demonstration of their variability and limited utility than as an accurate indication of the banks' environmental standards.

Table 4. Non-exhaustive list of green indicators for Irish domestic banking groups

	AIB Group	**RBS Group (Ulster Bank)[69]**	**Bank of Ireland Group**
Signatory of the Low Carbon Pledge[70]	Yes	Yes	Yes
Scope 3 emissions included	–	Partial (Business travel)	–
Reduction in operational (Scope 1 & 2) carbon emissions intensity	20% (since 2014)	61% (since 2014)	40% (since 2011)
Signatory of UN Responsible Banking Framework	Yes	Yes	Yes
TCFD supporter	Yes	Yes	Yes
CDP Score (A–F)	A- (Leadership)	B (Management)	C (Awareness)
Sustainalytics ESG Risk Rating (/100)	59 (Severe)	27 (Medium)	22 (Medium)
MSCI ESG Rating (AAA–CCC)	A (Average)	BBB (Average)	–
SAM Global ESG Score (/100)	35	71	27

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69 The RBS Group has recently rebranded as the NatWest Group, but for the sake of consistency we will refer to RBS throughout this section.

70 Initiated by Business in the Community Ireland, the Low Carbon Pledge commits signatories to a 50% reduction in operational (Scope 1 & 2) carbon emissions intensity by 2030.

What follows is a more pointed discussion of the progress achieved in different thematic areas relating to climate action, based on the information that can be gleaned from publicly available sources.

Assessment and disclosure of climate-related risks

AIB[71]

- AIB has made considerable progress in the assessment and disclosure of climate-related risks and impacts, which are carried out as part of its material risk assessment process and guided by a Sustainable Business Advisory Committee.
- Reports on the Group's current and emerging risks are reported at each Executive Risk Committee and Board Risk Committee.
- AIB's response to the CDP initiative features an attempt to quantify the potential financial impact of several climate-related risks, which is estimated at €70.7 million.

RBS/Ulster Bank[72]

- That RBS/Ulster Bank's has begun to take heed of recent criticisms of its record in recent is evident from its engagement with the CDP and the information contained in Group documents.
- Currently the RBS Group's Sustainable Banking Committees have been responsible for oversight of climate-related issues, with the Chief Risk Officer accountable for the financial implications of climate-related risks. These risks are reported quarterly to the Board and Board Risk Committee.
- The Group is working to integrate climate-related risks into its core risk management frameworks 'in a qualitative manner until climate risk indicators allow incorporation on a quantitative basis'. In line with regulatory trends, it

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71 The information relating to AIB throughout this section is mainly drawn from the Group's CDP Climate Change 2019 response, **https://www.cdp.net/en/formatted_responses/responses?campaign_id=66216852&discloser_id=830652&locale=en&organization_name=AIB+Group+Plc&organization_number=600&program=Investor&project_year=2019&redirect=https%3A%2F%2Fcdp.credit360.com%2Fsurveys%2F9hz110bc%2F46910&survey_id=65670419**; its *Sustainability Report 2019* (February 2020), **https://aib.ie/content/dam/aib/personal/docs/sustainability/aib-sustainability-report-2019.pdf**; and supplementary investor relations publications.

72 The information relating to the RBS Group (incorporating Ulster Bank) throughout this section is mainly drawn from the Group's CDP Climate Change 2019 response, **https://www.cdp.net/en/formatted_responses/responses?campaign_id=66216852&discloser_id=822521&locale=en&organization_name=Royal+Bank+of+Scotland+Group&organization_number=15949&program=Investor&project_year=2019&redirect=https%3A%2F%2Fcdp.credit360.com%2Fsurveys%2F9hz110bc%2F49921&survey_id=65670419**; its *Annual Report and Accounts 2019* (February 2020), **https://investors.rbs.com/~/media/Files/R/RBS-IR/results-center/annual-report-2019.pdf**; and supplementary investor relations publications.

expects that responsibility for climate risks and climate strategy will eventually be reserved to the Group Board and Board-level Committees.

- The Group's latest Annual Report includes a rough breakdown of lending exposures for sectors that are most relevant for climate risk purposes, and commits to undertaking a targeted analysis for climate change/physical risk impact on its UK residential mortgage portfolio.
- RBS's response to the CDP initiative has identified a number of climate-related risks, but has only been able to put a figure of £2.4 million on the potential impact of increased carbon pricing.

Bank of Ireland[73]

- Bank of Ireland is lagging behind in the development and adoption of mechanism for assessing and disclosing climate-related risks.
- The Group Nomination and Governance Committee of the Board has overall responsibility for its Responsible & Sustainable Business programme, which covers climate change and is reviewed annually. The Group Risk Framework takes climate change into consideration and is overseen by a Court Risk Committee. Climate-related risks are not yet reviewed or discussed regularly at the highest levels of governance.
- The Bank has pledged to 'identify activities and assets exposed' to these risks and 'measure possible financial risk impact', in line with the TCFD recommendations. These are set to be integrated into the bank's 'existing risk channels' and risk management governance frameworks, and will be used inform the organisation's business planning strategies. There is, however, no clear timeframe identified for realising these ambitions.
- Bank of Ireland's response to the CDP initiative identifies a number of climate-related risks, which it estimates could have a financial impact of €2.3 million.

73 The information relating to the Bank of Ireland Group in this section is mainly drawn from the Group's CDP Climate Change 2019 response, **https://www.cdp.net/en/formatted_responses/responses?campaign_id=66216852&discloser_id=825948&locale=en&organization_name=Bank+of+Ireland&organization_number=1411&program=Investor&project_year=2019&redirect=https%3A%2F%2Fcdp.credit360.com%2Fsurveys%2F9hz110bc%2F41040&survey_id=65670419**; its *Strategic Report 2019* (February 2020), **https://www.bankofireland.com/app/uploads/assets/strategic-report-2019.pdf**, and supplementary investor relations publications.

Scenario analysis and science-based targets

AIB

- Using the methodology developed by the Science Based Targets initiative (SBTi),[74] AIB has undertaken a scenario analysis to explore a 2°C transition scenario in 2030, which has been applied to its operational energy and (Scope 1 & 2) carbon emissions.
- A target has been seen for a reduction of operational carbon emissions intensity in line with the Low Carbon Pledge i.e. a 50% reduction in operational (Scope 1 & 2) carbon emissions intensity by 2030.
- The Bank has also applied a 2°C scenario analysis to its personal loans and mortgage book, while indicating it is looking to develop climate risk testing capability and 'define the management information required to identify a range of climate related scenarios'.
- No science-based target has been set for its portfolios.

RBS/Ulster Bank

- RBS/Ulster Bank is also a signatory of the Low Carbon Pledge.
- The RBS Group has commissioned a third party to undertake a 3.7°C 'business as usual' and a 2°C Paris Agreement scenario analysis of its portfolio.
- The Group is currently undertaking climate scenario analysis on agriculture and real estate sectors as part of the UN Environment Programme Finance Initiative (UNEP/FI) TCFD pilot,[75] and will publish findings from this analysis sometime this year. It has pledged to use the information garnered from these initial exercises support climate scenario analysis and stress testing as part of the 2021 Biennial Exploratory Scenario (BES) exercise initiated by the Bank of England's Prudential Regulation Authority (PRA).
- The RBS Group has set itself 'the challenge to at least halve the climate impact of our financing activity by 2030, and intend[s] to do what is necessary to achieve alignment with the 2015 Paris Agreement'. This has yet to be translated this into a science-based target, however the Group's recent decision to join the Partnership for Carbon Accounting Financials is perhaps the most concrete evidence that it is serious about delivering on its stated ambitions.[76]

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74 Science Based Targets, **https://sciencebasedtargets.org/financial-institutions/**.

75 UNEP/FI, Pilot Project on Implementing the TCFD Recommendations for Banks, **https://www.unepfi.org/banking/tcfd/**.

76 Partnership for Carbon Accounting Financials, 'NatWest Group becomes first major UK bank to join the Partnership for Carbon Accounting Financials', 27 July 2020, **https://carbonaccountingfinancials.com/newsitem/natwest-group-becomes-first-major-uk-bank-to-join-the-partnership-for-carbon-accounting-financials#newsitemtext**.

Bank of Ireland

- Bank of Ireland is, like the other two Irish domestic banks under analysis, a signatory of the Low Carbon Pledge.
- The bank has not undertaken a scenario analysis or set science-based targets for its portfolios, although these are said to form part of its plans for 2020 and beyond.

Carbon-intensive and low-carbon assets

RBS/Ulster Bank

- RBS/Ulster Bank has not provided an estimate of low-carbon assets, other than to identify the volumes of finance distributed across its range of green products.
- Exposure to carbon-intensive sectors (power, oil and gas) currently sits at 1.2% of total lending across the RBS Group; up to 40% of the Group's personal mortgages lie exposed to climate-related risks.
- Of the three main Irish domestic banking groups, RBS has set the most concrete decarbonisation targets by sector/activity. Foremost among these is the pledge stop lending and underwriting to companies with more than 15% of activities related to coal, unless they have a credible transition plan in line with Paris Agreement by end of 2021; with a full phase-out from coal by 2030.
- Lending and underwriting to major oil and gas producers will also stop unless they have a credible transition plan aligned with the 2015 Paris Agreement in place by the end of 2021.
- New coal-fired power plants and new thermal coal mines have been excluded from project financing with immediate effect, along with oil sands and Arctic oil projects and unsustainable vegetation or peatland clearance projects.
- Coutts, the RBS Group's asset management arm, is committed to reducing the level of carbon intensity for the equity component of its portfolios by 25% by end of 2021.
- RBS also has an 'ambition' that half of the its mortgage book will have a C energy rating or above by 2030.

AIB

- AIB is the only Irish bank to have published an estimated proportion of revenue generated from low-carbon products, which it puts at 1%.
- The Bank is yet to publish an estimate of carbon-intensive assets as an amount or as a percentage of total assets, nor has it set precise targets for changes in the composition of its lending, investment or underwriting activities.
- The has identified sectors is it 'keen to support with project finance (e.g. renewable energy)' along with sectors 'to which the bank has a low appetite for lending' and unspecified sectors that have been 'identified for exclusion from future lending'.

Bank of Ireland

- To date Bank of Ireland has not classified, assessed or set targets for changes to the volume and proportion of carbon-intensive or low-carbon assets.

Green products and services

AIB

- AIB has made a concerted effort to position itself as a leading climate bank, with the launch of a €5 billion Climate Action Fund for green products and a Green Bond Framework. Based on current figures, this €5 billion would represent just over 5% of the Group's total assets (€98.6 billion).
- In 2019 AIB contributed €1.9 billion to green financing, which accounted for 9.8% of new lending in that year.
- The Green Bond Framework aligns with the International Capital Market Association (ICMA)'s Green Bond Principles and commits to following the recommendations of the TEG for a new EU-wide standard.[77] The Framework has been independently verified by Sustainalytics.[78]
- An initial assessment conducted under bank's Green Bond Framework indicates that most of the bond proceeds for Ireland will be allocated to green commercial property (€816.2 million), with the remainder going into renewables (€275.6 million).
- A 2.45% fixed rate Green Mortgage for all A1 to B3 energy rated homes has been introduced, in addition to environmental improvement loans for personal customers looking to finance energy efficiency initiatives.

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77 AIB Green Bond Framework, **https://aib.ie/content/dam/aib/investorrelations/docs/debt-investors/green-bonds/aib-green-bond-framework.pdf**.

78 Sustainalytics, 'Second-party Opinion: AIB Green Bond Framework' (September 2019), **https://aib.ie/content/dam/aib/investorrelations/docs/debt-investors/green-bonds/aib-second-party-opinion-sustainalytics.pdf**.

RBS/Ulster Bank

- RBS/Ulster Bank has made a similar move to establish itself as the leading climate bank in Britain and Ireland. As well as appointing climate change expert Nicholas Stern to help shape its strategy,79 the Group has launched a Green, Social and Sustainability Bond Framework and devoted nearly £30 billion to 'climate and sustainable finance' over four years.
- £9.9 billion has already been allocated to sustainable energy funding and financing in 2018-2020, with a further £20 billion committed for 2020-2022. Based on current figures, this £29.9 billion would represent approximately 4% of the Group's total assets (£723 billion).
- Future plans for climate and sustainable finance will be implemented according to a newly developed Inclusion Criteria, which is set to keep pace with emerging international eligibility criteria including the EU Taxonomy and the GBS. [80] The RBS Green, Social and Sustainability Bond Framework is broader in scope and less rigorous, aligning with the ICMA's criteria in each of the three areas.81 This has been independently verified by Sustainalytics.[82]
- To date the Group has issued Green Bonds totalling £4 billion, and identified £495 million of eligible green loans covering renewable energy projects that stand to benefit from allocation of the proceeds.
- RBS/Ulster Bank does not currently offer a bespoke green mortgage product, but is promoting green project finance and sustainability-linked loans in line with its climate and sustainable finance agenda.

Bank of Ireland

- As part of its response to COVID-19 pandemic, Bank of Ireland has recently added €1 billion to its existing €1 billion Sustainable Finance Fund. Based on current figures, this €2 billion would represent approximately 1.5% of the Group's total assets (€132 billion).
- In July 2019 Bank of Ireland's launched a fixed rate Green Mortgage discount of 0.2% for A energy rated homes and a Green Home Improvement Loan at 6.5% (APR variable) for amounts up to €65,000. A Green Business Loan of up to

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79 Iain Withers, 'RBS hires top climate expert as it says goodbye to historic name', *Reuters UK*, 22 July 2020, **https://uk.reuters.com/article/us-britain-rbs-namechange/rbs-hires-top-climate-expert-as-it-says-goodbye-to-historic-name-idUKKCN24M32M**.

80 RBS Climate and Sustainable Finance Inclusion Criteria (February 2020), **https://www.rbs.com/content/dam/rbs_com/rbs/PDFs/Climate-and-Sustainable-Finance-Inclusion-Criteria-2020.pdf**.

81 RBS Green, Social and Sustainability Bond Framework, **https://investors.rbs.com/~/media/Files/R/RBS-IR/green-social-and-sustainability-bonds/framework-report.pdf**;

82 Sustainalytics, 'Second-Party Opinion – Royal Bank of Scotland: Green, Social and Sustainability Bond' (November 2019), **https://investors.rbs.com/~/media/Files/R/RBS-IR/green-social-and-sustainability-bonds/rbs-sustainability-bonds-framework-second-party-opinion-4-11-2019.pdf**.

€300,000 has since been introduced, offering a 0.5% discount work undertaken by borrowers to 'enhance sustainability or retrofit their business'.

- The Bank of Ireland Group claims to be 'a leading financier' of renewables, providing finance for 1GW of energy projects in Ireland. There is no financial figure attached to this claim, nor has the bank been able to provide a figure for overall green lending to date.
- Bank of Ireland has not yet published a set of internationally recognised criteria for green lending or green bond issuance.

Overall assessment

While the analysis suggests that the Irish domestic banking sector is headed in the right direction, Bank of Ireland is trailing behind in meeting any reasonable definition of best practice. Indeed, in many areas Bank of Ireland could be considered a laggard by comparison with other Irish and European banks. But even AIB and RBS/Ulster Bank need to go much further to across a number of areas. This is all the more important as they are both majority state-owned and should be driving the green transition, rather than catching up with international trends. A number of ShareAction's recommendations for the European banking sector are particularly relevant:[83]

1. Carry out scenario analysis across all portfolios, <2°C, 2°C and >2°C scenarios, working with other banks to share information and best practice.

2. Publicly disclose the results of scenario analysis and how the findings have been integrated into the bank's strategy and decision-making process, to include consideration of climate-related risks at all levels of governance.

3. Publicly disclose exposure to carbon-intensive assets and underwriting activities, both as an absolute amount and percentage of total assets/ underwriting, and targets for reducing this exposure.

4. Set phase-out targets for coal, oil and gas in line with the latest science, using the methodology being developed by the SBTi. AIB and Bank of Ireland should also follow RBS/Ulster Bank in adopting a policy of immediately excluding unconventional fossil fuel projects from financing.

5. Detail how the bank is contributing to zero net deforestation and publish policies on sectors that have a significant impact on land use, as well as in sectors such as logistics.

6. Outline how the bank is engaging with clients to ensure that their activities are being brought into alignment with 1.5°C scenarios.

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83 ShareAction, *Banking on a Low-Carbon Future II.*

7. Publicly disclose exposure to low-carbon assets, both as an absolute amount and percentage of total assets, and targets for increasing this exposure.

8. Detail how low-carbon assets are defined and classified, working with other banks and regulatory authorities to ensure consistency. Use independent reviews to certify and monitor low-carbon assets to ensure their alignment with emerging international standards, and publicly disclose this information. The forthcoming EU Taxonomy will go some way towards providing a (less than perfect) framework within which this can take place. All three banks will have a job of work to do in order to satisfy the requirements of the Taxonomy, but particular challenges lie ahead for the Bank of Ireland on this front.

9. Detail how much capital the bank has raised via green bonds, including the percentage this represents of total capital raised via debt capital markets, and the allocation of proceeds by project/activity. Use independent reviews to certify and monitor green bonds to ensure their alignment with emerging international standards, and publicly disclose this information. The EU GBS will provide greater clarity on the activities of AIB and RBS/Ulster Bank in this area. Bank of Ireland does not appear to have entered green bond playing field at this stage.

10. Proactively engage with regulators and policy-makers on climate-related financial regulation and policies to advance a green transition. As might be expected from state majority-owned banks, AIB and RBS/Ulster Bank have shown greater engagement in these areas than Bank of Ireland, but all three need to demonstrate better leadership in driving the policy agenda – particularly given their dominant position in the Irish domestic banking sector.

11. Fully disclose all the information recommended by the TCFD.

12. Publish an ambitious group-wide climate action strategy, detailing the scenario the bank intends to align with and how it intends to achieve this. This should include or sit alongside a policy outlining the bank's approach to a just transition for workers, communities, consumers and citizens.

The last point must not be treated as an add-on as the banks move towards decarbonisation, but rather form an integral part of their climate action strategies. One reason why this is so important is that we have seen even less progress on the social dimension of ESG than on environmental issues, with banks continuing to finance and underwrite activities that have damaging implications for workers' rights and societal wellbeing.

The Irish domestic banking sector has done much to earn its negative reputation, not only by helping to fuel massive commercial property speculation in the lead up to the financial crash, but also by engaging in extensive foreclosures and price-

gouging in the decade since.[84] Despite the fact of state-ownership and an apparent clampdown on these activities, personal mortgage rates and borrowing costs for small businesses remain much higher in Ireland than in the rest of Europe. This takes some of the shine off the green products and services being offered by the banks in question. Added to this is the harsh reality of an inflated property market that is beyond reach for many people: Bank of Ireland's Green Mortgage, for example, would only make sense for someone who has the wherewithal to buy a new home, at an average price of €438,693 in Dublin.[85]

Similarly, any rhetoric around climate action and a just transition may ring hollow if the banks persist with cost-cutting exercises that result in job losses and the closure of branches that serve remote communities. The two state-owned banks, AIB and RSB/Ulster Bank, have shed thousands of jobs and closed dozens of branches in the past ten years, and the former has recently signalled its intention to cut a further 1,500 jobs by 2022. This move appears to be designed to compensate for the payouts resulting from the bank's own financial malpractices, and comes despite the Group reporting profits of more than £1 billion in 2019.[86] One analysis suggests that that retail banks in Ireland could cut as many as 7,000 jobs over the next five years as they look to reduce the size of their branch networks, which would have obvious negative implications for the workers concerned and for the communities that depend on access to a physical branch.[87]

It should be reiterated that the two governments have a dual responsibility for advancing a just transition in the Irish domestic banking sector, first as majority-owner (and part-owner in Bank of Ireland's case) of the banks, and second by virtue of its control over the policy and regulatory environment. Ultimately, any failure to deliver progress towards a just transition among these banks will be as much down to state inaction and regulatory weaknesses as to the whims of bank management.

4.3.2 Market-based finance/shadow banking and institutional investment

The significant role played by Ireland's financial system in the global economy demands a brief examination of green finance trends in the spheres that sit outside of the traditional domestic banking sector. Reliable information on Irish-resident international credit institutions and the market-based finance/shadow

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84 Central Bank of Ireland, *The Tracker Mortgage Examination: Final Report* (July 2019), **https://www.centralbank.ie/docs/default-source/consumer-hub-library/tracker-issues/update-on-tracker-mortgage-examination---july-2019.pdf?sfvrsn=6**.

85 'Residential property prices up 1% in March, before Covid-19 impact', *RTE News*, 14 May 2020, **https://www.rte.ie/news/business/2020/0514/1138373-cso-residential-property-prices/**.

86 'AIB to cut 1,500 jobs by 2022 as profits drop', *RTE News*, 6 March 2020, **https://www.rte.ie/news/business/2020/0306/1120539-aib-annual-results/**

87 Shawn Pogatchnik, 'State must act to defend up to 7,200 bank jobs at risk – union', *Irish Independent*, 24 July 2020, **https://www.independent.ie/business/irish/state-must-act-to-defend-up-to-7200-bank-jobs-at-risk-union-39393338.html**.

banking sector is extremely hard to come by, even for the Central Bank, Ireland's macroprudential regulator. For this reason, and because of what we do know about the unsavoury role played by big asset managers and opaque Irish shadow banking entities,[88] we must be circumspect about any climate-related claims that might be made by those operating in the sector.

Ireland has not been immune to the type of sustainability initiatives that have emerged in other European financial centres. Back in 2011, with Ireland in the teeth of a financial crisis, a Green IFCS project was launched with the help of a €6.8 million subsidy from the Government, the then Taoiseach Brian Cowen arguing that it would create up to 7,000 jobs.[89] In practice all the initiative ended up achieving was the creation of new revenue streams in carbon trading and the extension of Ireland's 'tax-neutral' securitisation regime to carbon offsets.

The Green IFSC was replaced in 2016 by Sustainable Nation Ireland (SNI), which has since become the preeminent voice of non-banking finance on green matters. SNI is the main sponsor of Climate Action Week as well as the Sustainable and Responsible Investment Forum (SIF), a national platform of investors and intermediaries charged with increasing awareness of the sustainable investment agenda. More significantly, SNI has a direct line to the Government: public lobbying records reveal that SNI held at least five meetings with officials and ministers, including the Tánaiste and the Minister for Finance, to shape the Ireland for Finance strategy prior to its publication in early 2019, and has had five such meetings since.[90]

SNI and the Government have made about the emerging green credentials of Dublin's financial centre, Ireland for Finance boasting that half of asset managers 'have a sustainability-themed strategy in place'.[91] Yet, there are a number of reasons to be less sanguine about the progress made in these areas. Although Dublin ranks 30th in the 108 top financial centres evaluated as part of the Global Financial Centres Index (GFCI),[92] it sits in the bottom half according to the depth (38/67) and quality (41/68) of green finance.[93] This divergence brings us back to the overriding strategic priority of competitiveness identified in Ireland for Finance.

Serious problems are also evident in how sustainability standards are conceived and applied. The second annual State of Play report issued by the SIF reveals that 75% of respondents from the Irish financial services sector apply ESG integration to their

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88 Stewart and Doyle, 'The measurement and regulation of shadow banking in Ireland'; 'Ireland, Global Finance and the Russian Connection', TASC Seminar, 27 February 2018, **https://www.tasc.ie/assets/files/pdf/ireland_global_finance_and_the_russian_connection.pdf?issuusl=true**.

89 Suzanne Lynch, '"Green IFSC" may create thousands of jobs, says Taoiseach', *Irish Times*, 28 January 2011, **https://www.irishtimes.com/business/energy-and-resources/green-ifsc-may-create-thousands-of-jobs-says-taoiseach-1.1279749**.

90 Sustainable Nation Ireland lobbying returns, **https://www.lobbying.ie/organisation/1440/sustainable-nation-ireland**

91 Government of Ireland, *Ireland for Finance*, p. 19.

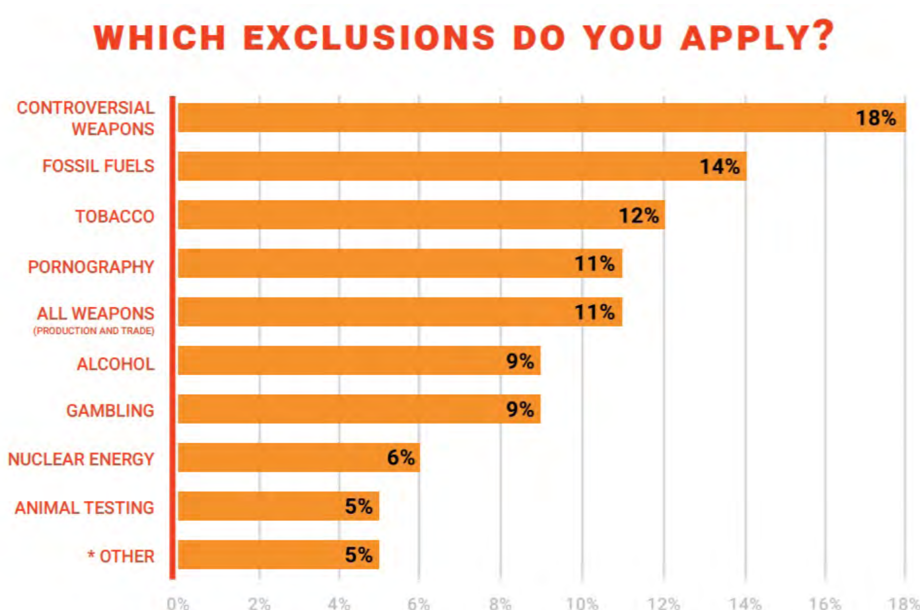
92 Long Finance and Financial Centre Futures, *The Global Financial Centres Index 27* (March 2020), **https://www.longfinance.net/media/documents/GFCI_27_Full_Report_2020.03.26_v1.1_.pdf**

93 Long Finance and Financial Centre Futures, *The Global Green Financial Index 5* (March 2020), **https://www.longfinance.net/media/documents/GGFI_5_Full_Report_2020.03.24_v1.1_.pdf**.

investment process.[94] But, as we have established, the reliance of market-based finance actors on subjective ESG criteria implies that a great deal of greenwashing could be going on. Even if investors allocate their fund to passive investment – that is, funds designed to automatically track ESG indexes – 'they may inadvertently increase exposure to brown assets and the carbon footprint of their portfolios as index providers decide what stocks make up the index'.[95]

Delving deeper into the State of Play report, we begin to get a clearer idea of where the sector's commitment to a green and just transition is coming up short. Significantly, only 14% of asset managers and asset owners responding to the survey have decided to exclude fossil fuels from their investment decisions, with 18% excluding so-called 'controversial weapons'.

Figure 17. Investment exclusions applied by Irish asset managers and owners (Source: SIF, 2019)[96]



Another striking finding is that less than a quarter (23%) strongly agree with the proposals for an EU Taxonomy, which corresponds with the lack of support for the Taxonomy in the Ireland for Finance strategy.[97] Moreover, it is worth noting the survey's methodological limitations, which may be giving a more positive impression than is actually the case. Not only do these surveys tend to attract responses from those with an interest in and commitment to some form of sustainability agenda, but the SIF survey excludes those entities whose investment decisions are made outside Ireland. This is useful for the purpose of more closely examining the nature

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94 SIF, *Ireland's Annual Responsible Investment State of Play Report 2019* (November 2019), p. 3.

95 Gabor et al., *Finance and Climate Change*, p. 38.

96 SIF, *Annual Responsible Investment State of Play Report*, p. 12.

97 Ibid., p. 4.

and impact of decisions made in Ireland, but it also means that the whole world of cross-border activities and Ireland's role in that system remains largely unexplored.

The difficult task of identifying data on the investments made by individual pension funds is beyond the scope of this exercise. However, overall trends suggest that much more work needs to be done both within the sector and in the realm of regulation and public policy. We have already noted that Irish pension funds have, like their European counterparts, begun to reduce their allocation to equity investment and diversify into different areas, though not necessarily into low-carbon activities. Irish pension schemes are also trailing behind the UK and rest of Europe on the divestment front. According to the Go Fossil Free project, a total of 17 Irish institutions have joined the ISIF in fully divesting from fossil fuels. This small cohort is mainly made up of faith organisations, as well as the Mary Robinson Foundation, Trócaire and two universities, Trinity College Dublin and the National University of Ireland, Galway.[98] Many more organisations are missing from this list.

4.4 What is to be done?

1. Mandatory climate-related financial disclosures are an important first step in enabling investors, lenders, public bodies and citizens to make informed decisions. All Irish-resident companies and financial institutions (including insurance providers) should be required to make disclosures public in their annual financial filings, in line with the TCFD's recommendations and those of the ShareAction project.[99] Climate risk-related disclosures should be mandatory to the extent allowed by the development of appropriate methodologies. As Gabor et al. suggest, these could also be incorporated into the Pillar 2 reporting (and the Internal Capital Adequacy Assessment Process) and Pillar 3 disclosure requirements for financial firms.[100] The TCFD's guidance, coupled with fast-moving developments in sustainability accounting, should allow for these risks to be factored into a firm's income statement, cash flow statement and balance sheet.

2. The Irish financial sector should be subject to climate stress tests by the Central Bank of Ireland, in lieu of an EU-wide exercise initiated by the European Banking Authority (EBA). The Dutch Central Bank has led the way in developing a quantitative climate stress test framework,[101] closely followed by the Bank of England, which has undertaken a stress test of insurers and plans to do the same for big financial institutions next year. The NGFS has just released its

98 Go Fossil Free, **https://gofossilfree.org/divestment/commitments/**.

99 ShareAction, *Banking on a Low-Carbon Future* II, pp. 46-47.

100 Gabor et al., *Finance and Climate Change*, p. 28.

101 Robert Vermeulen, Edo Schets, Melanie Lohuis, Barbara Kölbl, David-Jan Jansen and Willem Heeringa, 'The Heat is on: A framework measuring financial stress under disruptive energy transition scenarios', DNB Working Paper No. 625 (February 2019), **https://www.dnb.nl/binaries/Working%20paper%20No.%20625_tcm46-382291.pdf**.

first set of climate scenarios to enable central banks, regulators and firms to begin exploring physical and transition risks in a more comprehensive manner. Despite its limitations, the NGFS approach represents a 'crucial step forward' towards enabling the Government and Central Bank to get to grips with the risks contained within the Irish financial sector.[102] *In short, there appears to be no good reason why the Central Bank could not undertake this exercise, if only for the initial purpose of having a better informed supervisory and regulatory approach.*

3. The EU sustainable finance agenda is progressing slowly, and continues to be successfully diluted by the lobbying influence of vested interests. The forthcoming EU Taxonomy lacks the rigour and clarity that a public non-green/green or shaded 'brown-to-green' taxonomy would provide. This weakness in the EU's adopted approach is all the more striking given the TEG's support for a more comprehensive classification system and the extensive work that has been done by the NGFS to outline how it might operate.

Figure 18. Comparison of 'non-green/green' and 'brown-to-green' taxonomies (Source: NGFS, 2020)[103]

Were the Irish Government and Central Bank serious about addressing the corporate and financial sector's role in dealing with climate change, they could use the growing evidence base to build on the EU Taxonomy and develop an official taxonomy that accurately identifies dirty activities.

4. A 'non-green/green' or 'brown-to-green' taxonomy is necessary to enable an accurate assessment and disclosure of low-carbon and carbon-intensive activities, and of climate-related risks. It is also fundamental in determining

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102 'Roberta Pierfederici, 'The new climate scenarios for central banks and supervisors', *LSE Grantham Research Institute on Climate Change and the Environment*, 6 July 2020, **http://www.lse.ac.uk/granthaminstitute/news/the-new-climate-scenarios-for-central-banks-and-supervisors/**.

103 NGFS, *A Status Report on Financial Institutions' Experiences from working with green, non green and brown financial assets and a potential risk differential* (May 2020), p. 24, **https://www.ngfs.net/sites/default/files/medias/documents/ngfs_status_report.pdf**.

the type of policy and regulatory response that can be taken by central banks and governments. It clear from lending and investment trends, and from academic studies on the subject, that greater transparency and green market-based nudges are insufficient to move large-scale finance and corporate behaviour away from carbon-intensive activities.[104]

Ireland, as we have seen, is has continued along the path of subsidising firms and penalising households, while the European Commission is now considering the introduction of a so-called 'green supporting factor' that would reduce the capital banks are required to hold against green assets. What would be more equitable and empirically more effective is legislation, regulation and a penalising factor that would make carbon-intensive lending more expensive.[105]

5. The Government set an important precedent in legislating for a phased end to fossil fuel exploration in Ireland. It could follow this by legislating for a full phase-out of fossil fuel lending, investment and underwriting activities by 2030, giving firms ample time in which to adjust their behaviours and develop transition plans aligned with the Paris Agreement. All firms should be required publish their transition plans and face penalties should they fail to do so. At the same time, it should be mandatory for financial institutions to publish an estimate of low-carbon and carbon-intensive assets as an amount or as a percentage of total assets, and set precise Paris-aligned targets for changes in the composition of their lending, investment and underwriting activities.

6. Recognising that it may be difficult to secure EU-wide cooperation for an effective regulatory approach to climate action, and that the EU's 'four freedoms' prohibits the use of direct capital controls, the Government could go down the route of imposing indirect controls by applying taxes to carbon-intensive lending and investment. This would help slow down and make those activities more costly while raising tax revenue in the process.[106]

7. Though largely hidebound by its subordinate place within the European banking system, the Central Bank has considerable powers that can be exercised in support of climate action. It acts as the gatekeeper for firms seeking to enter the financial sector and can withdraw or suspend authorisations, as well as issue fines. The Central Bank also has the power to decide which assets can be used as collateral for borrowing, and through this can apply carbon-intensive exclusions to the activities of financial institutions.

8. The market-based finance/shadow banking sector is much larger and systemically important than it was at the time of the financial crash, and Ireland is a vital cog in this system of unregulated credit and investment. It is imperative that the Government and Central Bank ensure that the sector is properly regulated, and take steps to close down the arrangements that allow vast quantities of high-carbon money to be washed of their tax liability in Ireland. Gabor et al. suggest that climate factors should

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104 Ameli et al., 'Climate finance and disclosure for institutional investors'.

105 Jakob Thomä and Kyra Gibhart, 'Quantifying the potential impact of a green supporting factor or brown penalty on European banks and lending', *Journal of Financial Regulation and Compliance*, Vol. 27, No. 3, pp. 380-394.

106 Pettifor, *The Case for a Green New Deal*, pp. 142-143.

be introduced into the shadow banking sector's lending and derivative markets, together with a financial transactions tax on carbon-intensive equities.[107]

9. Beyond regulation and taxation, the state can play a 'market-shaping' role through patient investment in the low-carbon transition. Participants in one study admitted that institutional investors will not be 'the first movers' towards low-carbon investment, but would instead follow public directions and signals.[108] *This brings us back to the primacy of direct state investment and the potential value of a state investment bank that has a mandate to lead on climate action. The rapid transformation of AIB into a fully-fledged national climate bank could form part of the solution.*

10. Irish pension funds have a role to play in driving a pro-public green transition, but to what extent depends on a number of inter-related factors. A lack of information and expertise, the traditional carbon-intensive focus of investor instruments, a lack of appropriate low-carbon investment channels, and the absence of climate goals in macroeconomic and financial regulations have been identified as some of the barriers preventing a rapid scale-up in low-carbon investment.[109] *Irish pension schemes are also faced with the particular challenges of a comparatively smaller and more fragmented market, their indirect relationship with investee companies through managed funds and the heavy emphasis placed on lay trustees.*[110]

The Irish Government and Pensions Authority have failed to meet their basic obligations in the sphere of pensions legislation, regulation and guidance. The EU Directive IORP II (2019), which requires pension providers to carry out climate-related risk assessments and enables pension funds to take into account ESG factors in investment decisions, has yet to be transposed into Irish law. In its guidance to Irish pension fund trustees, issued in late 2018, the Pensions Authority gave no forewarning that climate-related risks and ESG factors were among the key issues that trustees would need to start taking into consideration.[111] Legislating and providing up-to-date, detailed guidance for this Directive would be the bare minimum one would expect from the state and pensions regulator, supported by the application of mandatory disclosures and an official national taxonomy. Going beyond this, the Government ought to take responsibility for ensuring that lay trustees are sufficiently informed and equipped to assess the green credentials of their investment options, and that asset managers are acting according to their instructions. Local and central government could take up the task of engaging strategically with pension schemes to help coordinate targeted investment in indigenous green enterprises, private or state-owned.

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107 Gabor et al., *Finance and Climate Change*, pp. 42-43.

108 Alemi et al., 'Climate finance and disclosure for institutional investors', p. 583.

109 Ibid., p. 579.

110 SIF, *Annual Responsible Investment State of Play Report*, p. 27.

111 The Pensions Authority, 'IORP II Considerations for Trustee', 1 October 2018, **https://www.pensionsauthority.ie/en/trustees_registered_administrators/iorp_ii_directive/iorp_ii_considerations_for_trustees_.pdf**.

From a strategic political perspective, the trade unions, party political left and civil society have a responsibility to agitate for a more rapid divestment of Irish pension funds, and to provide their lay trustees with the knowledge, tools and confidence to shape investment decisions for the benefit of a green and just transition. This will be all the more necessary in the face of inaction by the Government and Pensions Authority.

5. Conclusion

Ireland has reached a fork in the road from an economic, political and environmental point of view. The path favoured by the current Government is premised on the restoration of yesterday's unequal and unsustainable economic model, with added bicycle lanes and walkways. Left untouched in this vision are the main polluting sectors, low wages and ineffective workers' protections, low-tax shibboleths and the destructive forces of financialisation and speculation. The further we progress along this path, the more damage will be done to the chances of a green and just recovery leading to an equitable zero-carbon transition.

This outcome is far from a foregone conclusion, and there exists the scope and opportunity for Ireland to play its part in the 'trench war to hold of every tenth of a degree of warming'.[1] More than this, Ireland has the resources and capacity to do so in a way that delivers immediate benefits for workers and communities, bringing greater numbers into the longer term fight against climate breakdown.

The purpose of this research is to identify some of the possibilities for radical change, with a particular focus on the role of public and private finance. Even within the considerable constraints of EU membership, the Irish Government has a range of levers at its disposal that could be used to provide high-quality public services and simultaneously initiate a democratic, state-led green transformation of the economy. To this end, we suggest that the priority of ambitious direct state investment could be enhanced by the expansion and repurposing of pro-public investment capacities, an emphasis on democratic public banking, a new and green municipalism, wide-ranging tax reforms and a workers' rights agenda to move beyond the rhetoric of a just transition.

However, the positive impact of a state-led and pro-public investment strategy would be limited, if not eradicated, if Ireland's corporate sector and systemically important financial system are left to their own devices, or merely encouraged to change through market-based incentives.

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1 Kate Aronoff, Alyssa Battistoni, Daniel Aldana Cohen and Thea Riofrancos, *A Planet to Win: Why We Need a Green New Deal* (London: Verso, 2019), p. 176.

The state can and should drive the investment agenda, both for the benefit of important societal objectives and the 'market-shaping' impact this has on private sector behaviours. A state-led transformation away from the predominant model of low-tax and financialised development towards productive, green and job-rich economic activity would necessarily reshape the volume and nature of investment in Ireland. But it also is clear that this needs to be supported by public policy and regulatory framework that actively directs private finance and investment away from carbon-intensive activities, and gets to grip with a massively disproportionate shadow banking sector that acts as a facilitator of social and environmental destruction on a global scale. Ideally, this would be achieved through international cooperation, but the Irish Government can begin to address some of these challenges with the creative and effective use of existing state powers.

It must be reiterated that the ideas contained herein are not prescriptive, nor are they sufficient to deliver the kind of system change that is required for economic and climate justice. Rather, they are some of the building blocks that could be put in place today to make the task of structural economic change and decarbonisation easier and more likely to amass popular support. It is hoped that this work draws attention to some of the issues at stake and opportunities in front of us, and helps to stimulate discussion among those who are involved in the hard slog of organising the social forces that will form the backbone of a just transition.

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