



Smart Policies to Drive Investment

> At a Glance

- Governments are increasingly enacting policies for low-carbon growth. As of early 2014, nearly 500 climate laws exist in 66 countries.
- Climate action is economically beneficial - smart climate policies deliver multiple benefits, including improved public health, lower air pollution, reduced traffic congestion, more resilient infrastructure and diversified supply chains.
- Some governments recognize that the best way to address the climate challenge and turn it into an opportunity is to shift private investment to cleaner options. They are enacting policies to price carbon, remove fossil fuel subsidies, advance energy efficiency, and set investment frameworks for cleaner options.
- But globally the picture is mixed and there is still a continued flow of finance into high-carbon, risky assets.

THE CHALLENGE

Climate change presents a serious threat to economic growth, with a number of recent studies showing the negative impact that climate change is already having. The most effective way to reduce these risks is by reducing greenhouse gas emissions through a comprehensive set of measures that use government policy and fiscal measures to shift private investment toward lower-carbon options. These include:

- Gradually phasing out fossil fuel subsidies, and supporting cleaner technology options
- Putting a price on greenhouse gas emissions
- Enacting strong energy efficiency performance standards to drive reduced energy consumption, imports and related emissions
- Improving general investment frameworks by identifying and addressing financial regulation, capital markets development and competition laws that may be a barrier to private investment in greener options

City, state, and national governments recognize the need for these measures, and have enacted a mix of policies. But more needs to be done. For example, fossil fuel subsidies are five times greater than renewable energy subsidies, skewing incentives for investors and businesses. The International Energy Agency reports that fossil fuel subsidies in 2011 were US\$523 billion for developing and emerging

economies alone, while global renewables subsidies were US\$88 billion.

A positive note is that pricing carbon is gaining momentum. About 40 national and more than 20 sub-national jurisdictions have implemented or are planning to implement emissions trading schemes or carbon taxes; these countries and regions account for 22% of global emissions. Depending on each country's circumstances and priorities, various tools can be used to price carbon, including domestic emissions trading systems, carbon taxes, and payments for emission reductions.

Governments need to supplement carbon pricing and fossil fuel subsidy removal with policies that redirect investments toward green technologies, including performance standards and fiscal policies. According to the International Energy Agency, targeted energy efficiency measures have the potential to reduce global energy-related emissions by 1.5 Gigatonnes of CO₂ in 2020. About 60% of potential savings are from the buildings sector, where efficiency policies and measures have been proven in multiple locations. Other key sectors include transport, street lighting, and industry. Countries and cities also need to set long-term targets and strengthen incentives for green infrastructure and increase investment in research and development for green technology.

> Moving Forward

To increase ambition and expand private sector engagement in green investment strategies, governments need to recognize that policies that promote cleaner options also drive economic growth. A recent World Bank Group study looked at a set of targeted energy efficiency and low-carbon transport options in targeted emerging

economies, and found that these measures increased GDP by more than US\$ 1.8 trillion per year.

A growing portion of clean energy investment is taking place in emerging economies in Asia, Latin America and Africa. This investment is due in part to the creation of investor-friendly green growth strategies by developing country governments--to fund

water resources, sustainable agriculture, and clean energy. There is evidence in a number of countries--from Morocco to South Africa, and from Uganda to Vietnam--that the targeted use of public finance can scale up private financial flows into green investment through measures such as guarantees, insurance products and incentives, combined with the right policy environment to give opportunity and manage risk.

Developing country governments should create strategic plans for attracting private sector investment for their low-carbon growth ambitions. These plans would include proposals for using domestic and international public finance, with a focus on how to mobilize private investment. These plans could build on existing low-carbon growth plans or Nationally Appropriate Mitigation Actions in the United Nations climate context.

Substantive public-private partnerships are also key to delivering successful green infrastructure programs and projects. Domestic and international companies with technology, project implementation and strategic analytical skills are working more closely than ever before with governments and the international community to provide analysis, plans and proposals for program and project implementation and, increasingly, project execution.

In the area of fossil fuel subsidy removal, there are some excellent examples of leadership, where governments as diverse as Turkey, the Dominican Republic, the Philippines and Morocco have reformed fossil fuel subsidies. This has leveled the playing field for clean energy: Morocco saw its renewable energy investment grow from US\$ 297 million in 2012 to US\$ 1.8 billion in 2013, due in part to reduced energy subsidies. These countries are now using these freed-up resources to target support to the poor and to health, education, social welfare, and poverty programs.

➤ Examples of Leadership

Morocco has a renewable energy target of 42% of its total electrical capacity by 2020. To implement this goal, the government created MASEN--an agency dedicated to solar energy--and is working to develop a “super grid” that integrates solar power, wind power, hydropower and biomass. Morocco has launched a US\$9 billion National Solar Plan to build five commercial-scale solar plants, with a generating capacity of 2,000 megawatts.

South Africa has a target of 13% of electricity generation from renewables by 2020 and has introduced a Renewable Energy Independent Power Producers Program with a bidding process to procure the supply of 3.6 GW of large-scale capacity. This is supplemented by a carbon tax on annual emissions for all sectors, including electricity, petroleum, iron, steel and aluminum to be implemented in 2015.

Mexico has a 35 percent renewable energy target and carbon tax, and allows retail electricity consumers to connect renewable facilities to the national grid for billing credit. Mexico's policies have led corporate purchasers such as Wal-mart, Coca-Cola and Grupo Bimbo to invest in renewable energy self-generation.

The Philippines has set a target to double renewable energy from 4,500MW to 9,000 MW between 2010 and 2030 and offers renewable energy incentives like feed-in-tariffs, income tax holidays, accelerated depreciation and net metering to allow consumers generating power to sell back to the grid.

➤ References and suggested reading

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