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THE IMPORTANCE OF POLICY ALIGNMENT FOR PROMOTING LOW-CARBON INVESTMENT

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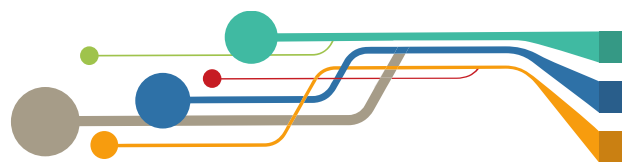
OECD Environment Directorate and
OECD Directorate for Financial and Enterprise Affairs



Presentation overview

- Why look at policy alignment in the context of climate change goals?
- High-level diagnosis of misalignments affecting public and private finance
- Analysing policies for the “supply” of green finance as well as those creating the “demand” leading to green investment

Why look at POLICY ALIGNMENT?

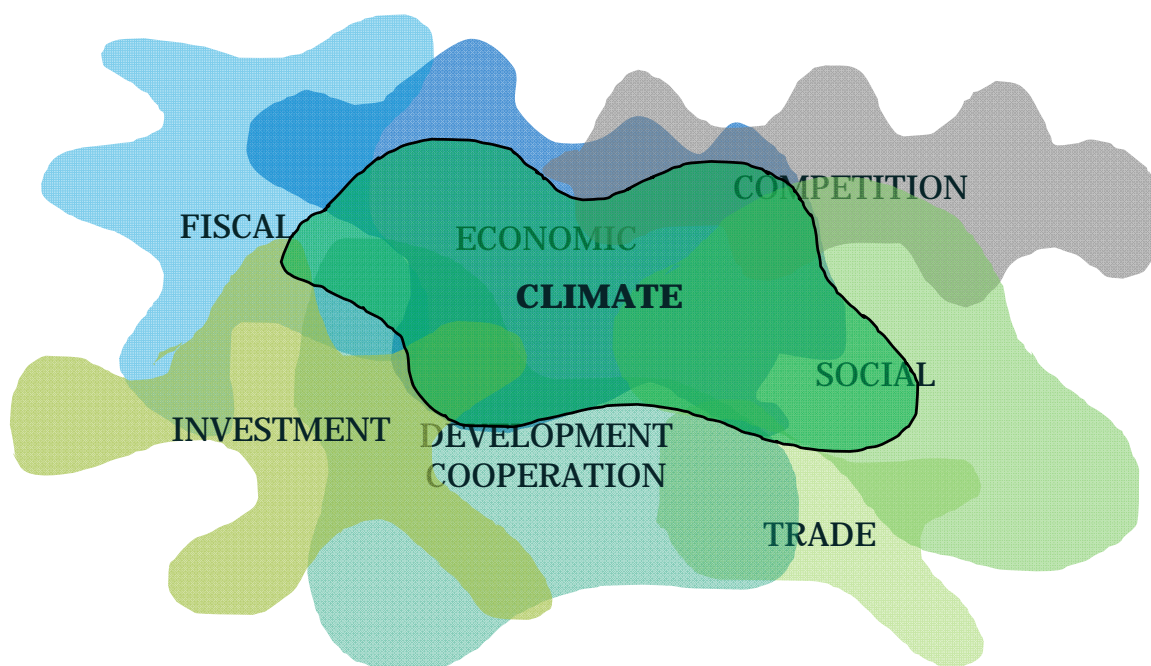
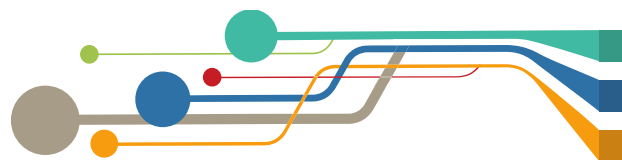


Stable and predictable climate policies are important:

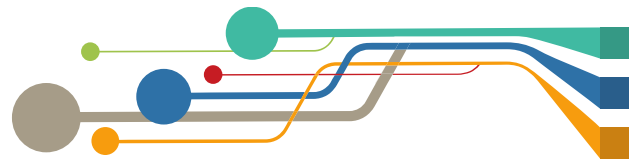
- A **strong price on carbon**, so that low carbon investments are competitive
- Strong **regulatory support** in areas where price signals are not efficient, e.g. energy efficiency.
- **Targeted support** for the uptake of low-carbon technologies

...but climate policies alone are not sufficient to achieve the low-carbon transition

Climate policy comes on top of other policy frameworks

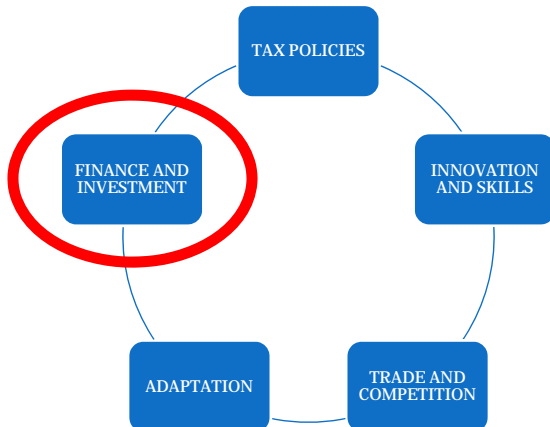


Aligning Policies for a Low-carbon Economy

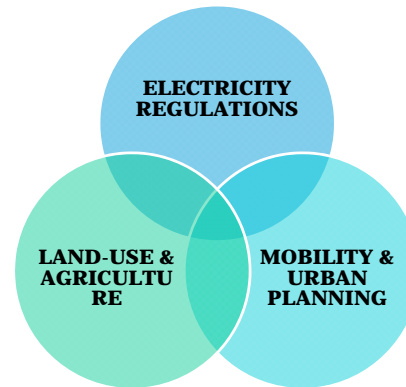


The OECD report on *Aligning Policies for a Low-carbon Economy* :
a first diagnosis on policy ‘misalignments’

I. CROSS CUTTING POLICY DOMAINS



II. SPECIFIC ACTIVITIES



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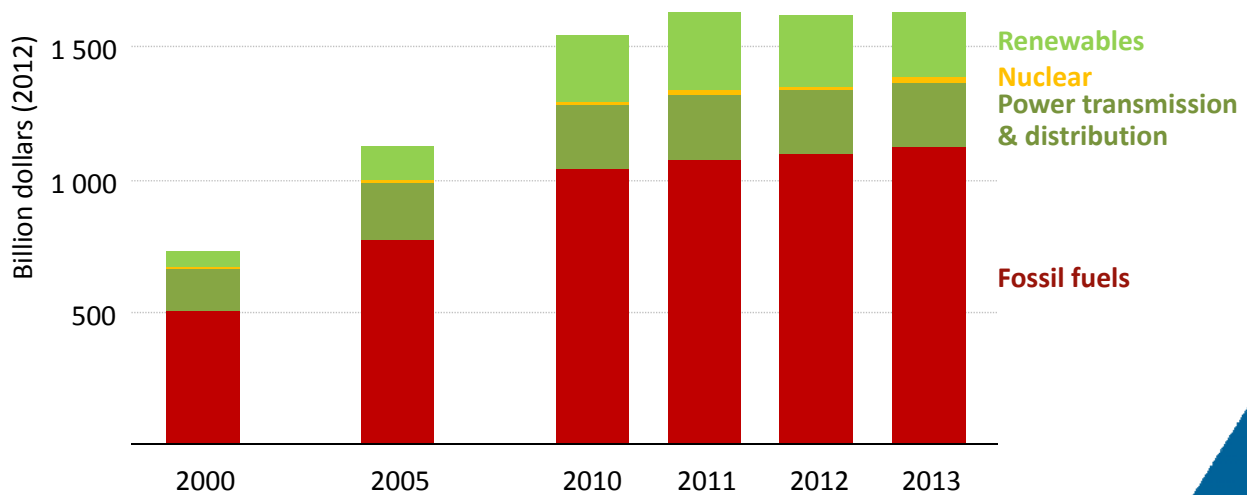


INVESTMENT AND FINANCE: Need for both scaling-up and shifting investment

Paris Agreement: (Art 2.c) *“Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development”*

1. Scale-up: \$53 trillion needed by 2035 in RE and EE (IEA)
2. Shift : Two-third of global investment in energy supply still goes to fossil fuels.

Annual energy supply investment



Source: IEA, World Energy Investment Outlook, 2014



High-level diagnosis: Policy misalignments affecting **public finance**

Mainstream climate goals in **public spending and development policies** such as:

- Public procurement
- Official development assistance
- Export credits. Some progress through OECD:



- OECD agreement in 2015 on Sector Understanding on Export Credits for Coal-fired Electricity Generation Projects
- Formally applies only to officially supported export credits in OECD countries
- Participants call on other credit providers to consider this new agreement as reference in their export credit policies



High-level diagnosis: Addressing policy misalignments to mobilise **private finance**

- Align **the rules governing the financial sector** with long-term investment goals:
 - Avoiding **unintended consequences of prudential regulations**
 - Enhance **disclosure and valuation of climate risks and liabilities** in investors’ portfolios, e.g stranded assets, carbon footprint, vulnerability to climate risks.
 - Promote tailored **green finance products**

“Supply”
- Develop a **green investment policy framework** conducive to low-carbon investment: avoid stop-and-go policies and focus on the investment environment

“Demand”

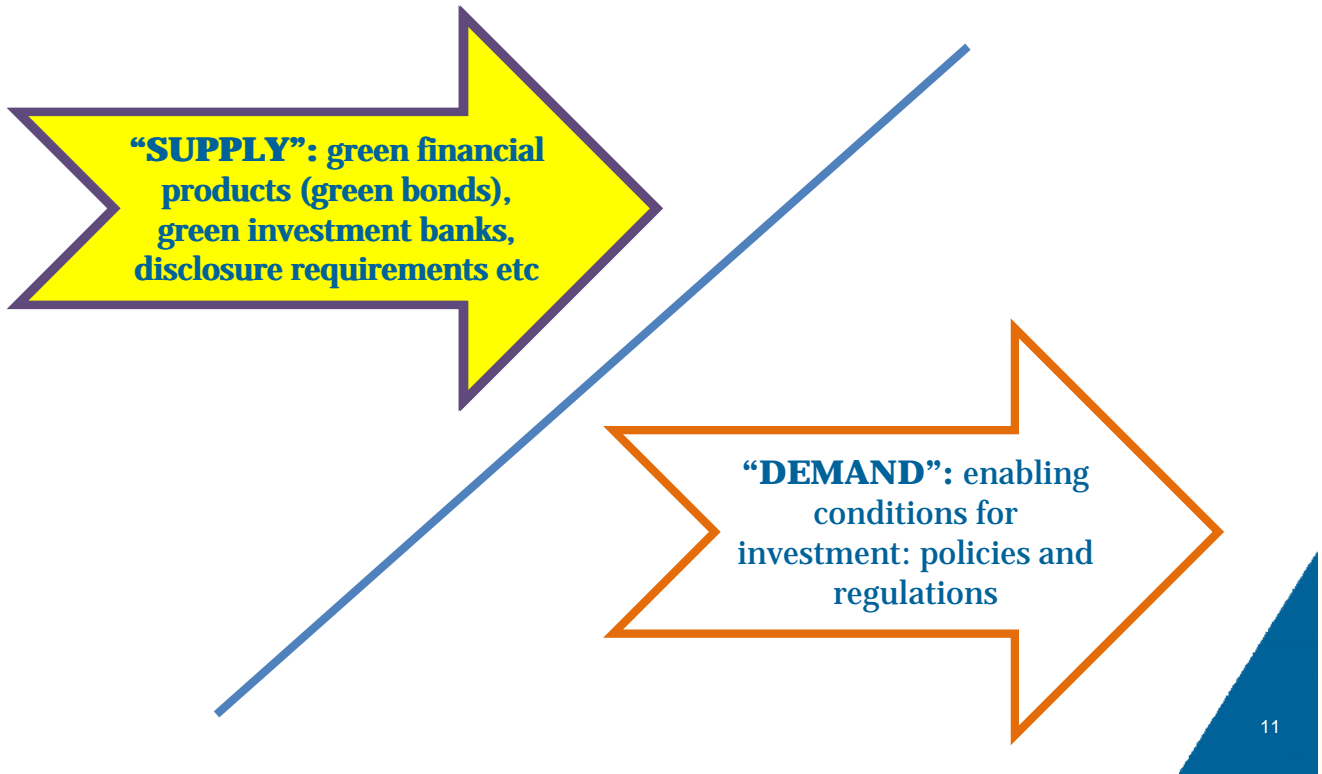


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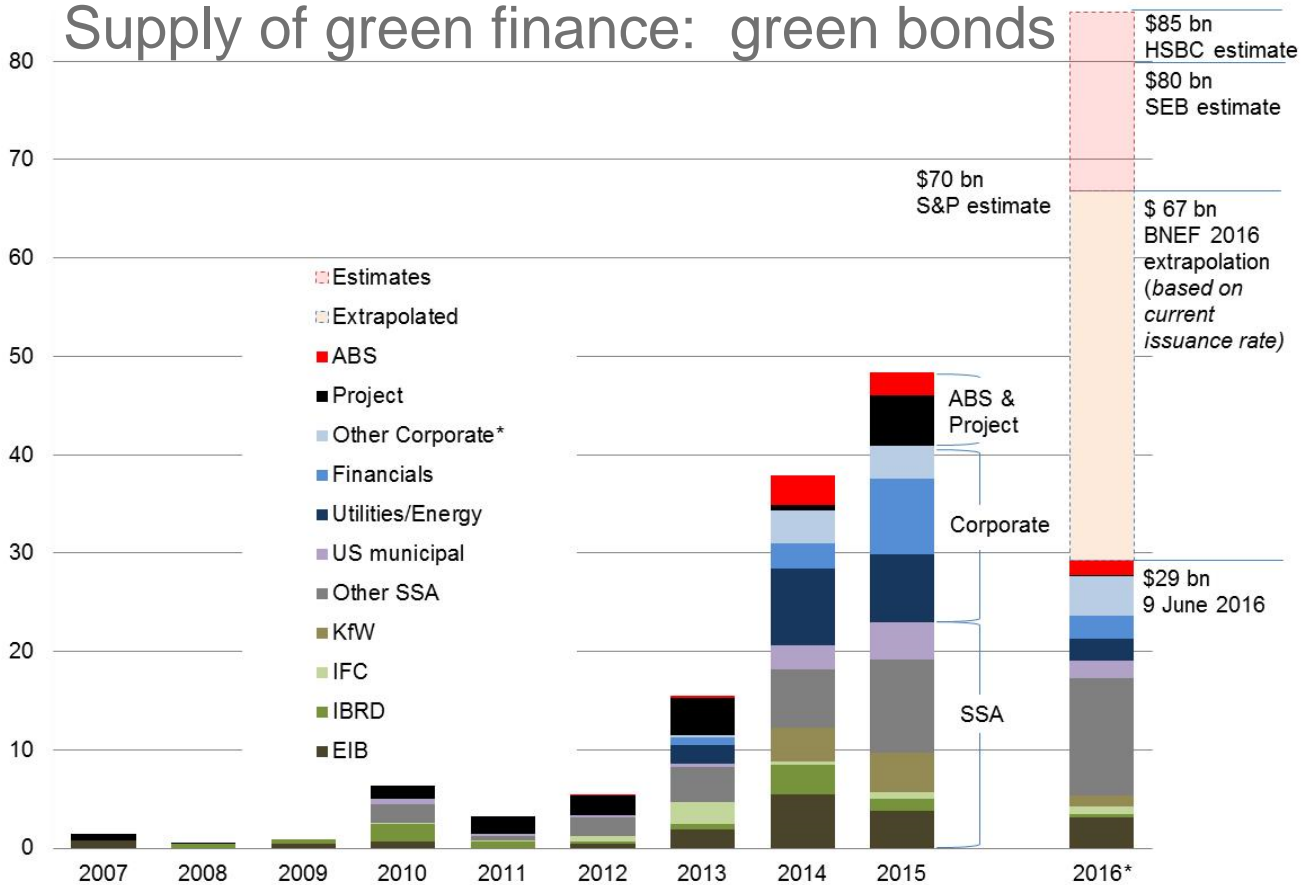
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Analysing policies for promoting low-carbon investment: “supply” and “demand”



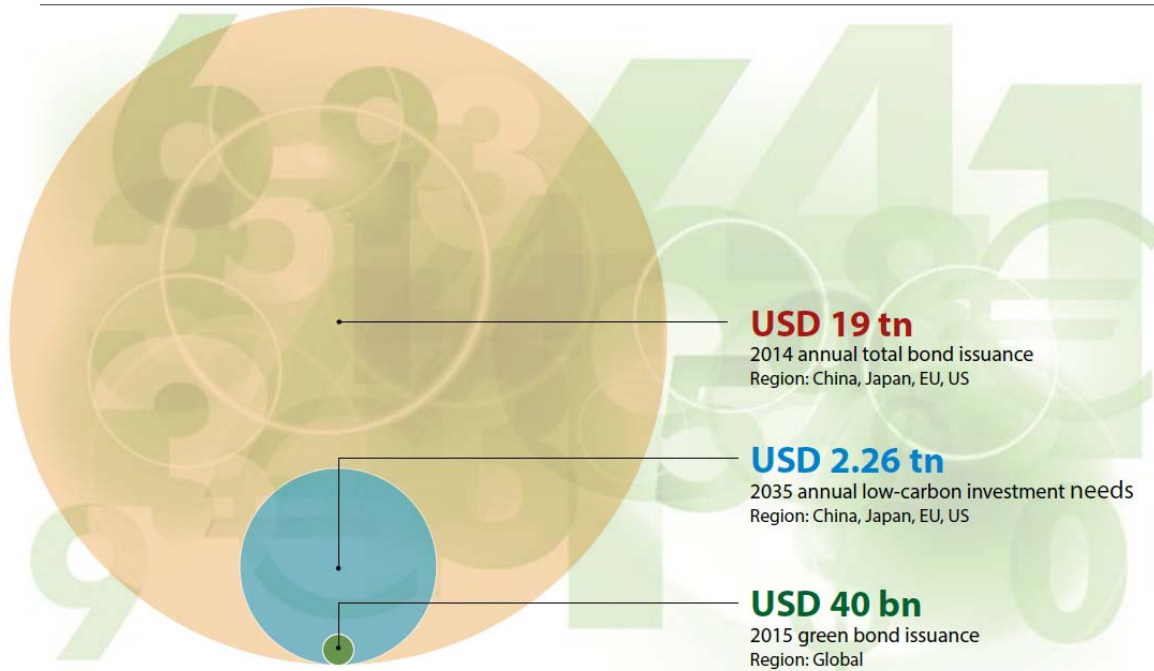
Supply of green finance: green bonds



Note: SSA: Sovereign, Supranational and Agency / ABS: Asset Backed Securities/ Other Corporate includes Consumer, Industrials, Technology sectors
 Source: OECD (2016 forthcoming) based on Bloomberg /BNEF data



Projected growth of green bonds to 2035



Note: "Low-carbon" investment needs cover the renewable energy, energy efficiency and low-emissions vehicle sectors as estimated by the IEA (2014, 2012). The 2015 green bond issuance figure of USD 40 billion extends to all sectors covered in Climate Bonds Initiative database as of November 2015. Annual total bond issuance is provided as an illustration and just as with green bond issuance, reflects "gross issuance" figures i.e. does not account for those securities that reach maturity or are redeemed from previous years (termed "net issuance"). It includes other types of debt securities such as notes and money market instruments.
Source: OECD analysis based on IEA (2014, 2012), Climate Bonds Initiative (2015), BIS (2015), SIFMA (2015), ECB (2015), JSRI (2015), ADB (2015) and Goldman Sachs (2015), in OECD (2015, 2016 forthcoming)



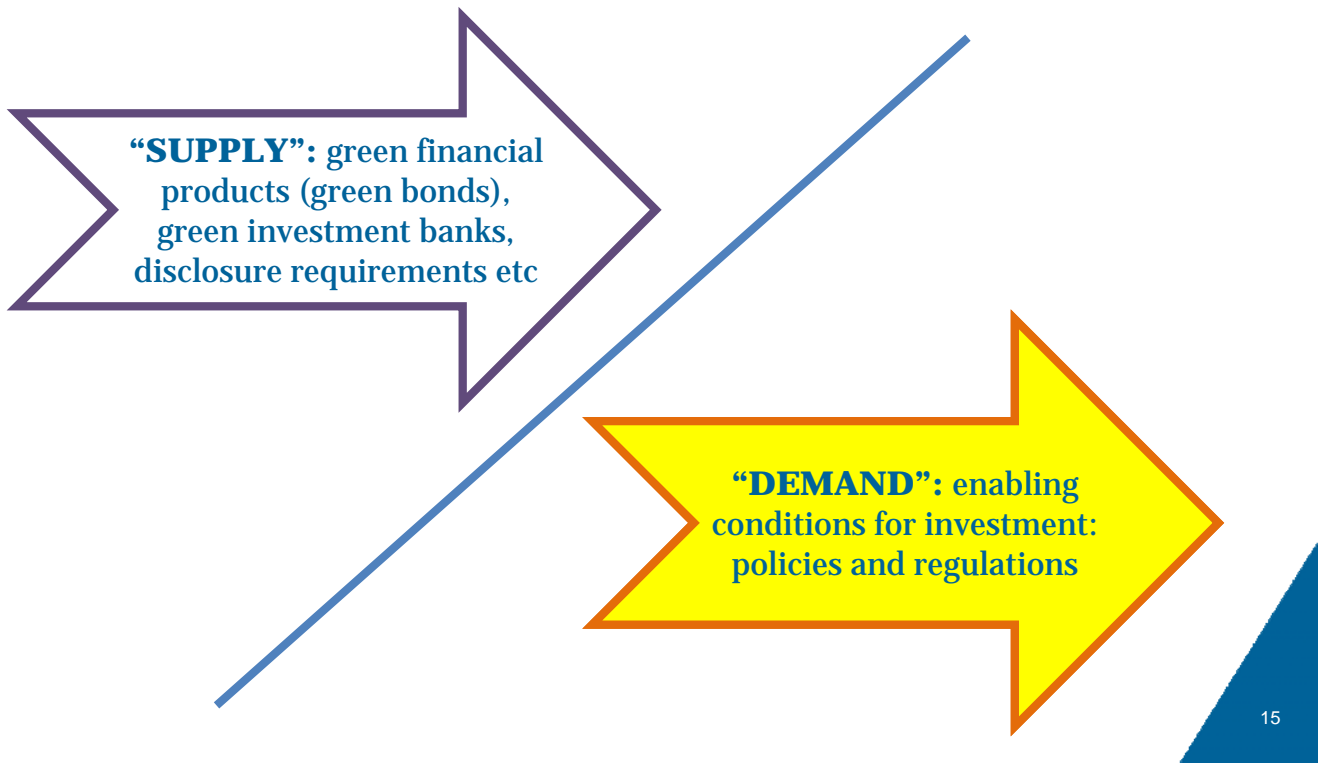
"Green Investment Banks": using public capital to crowd-in private investment



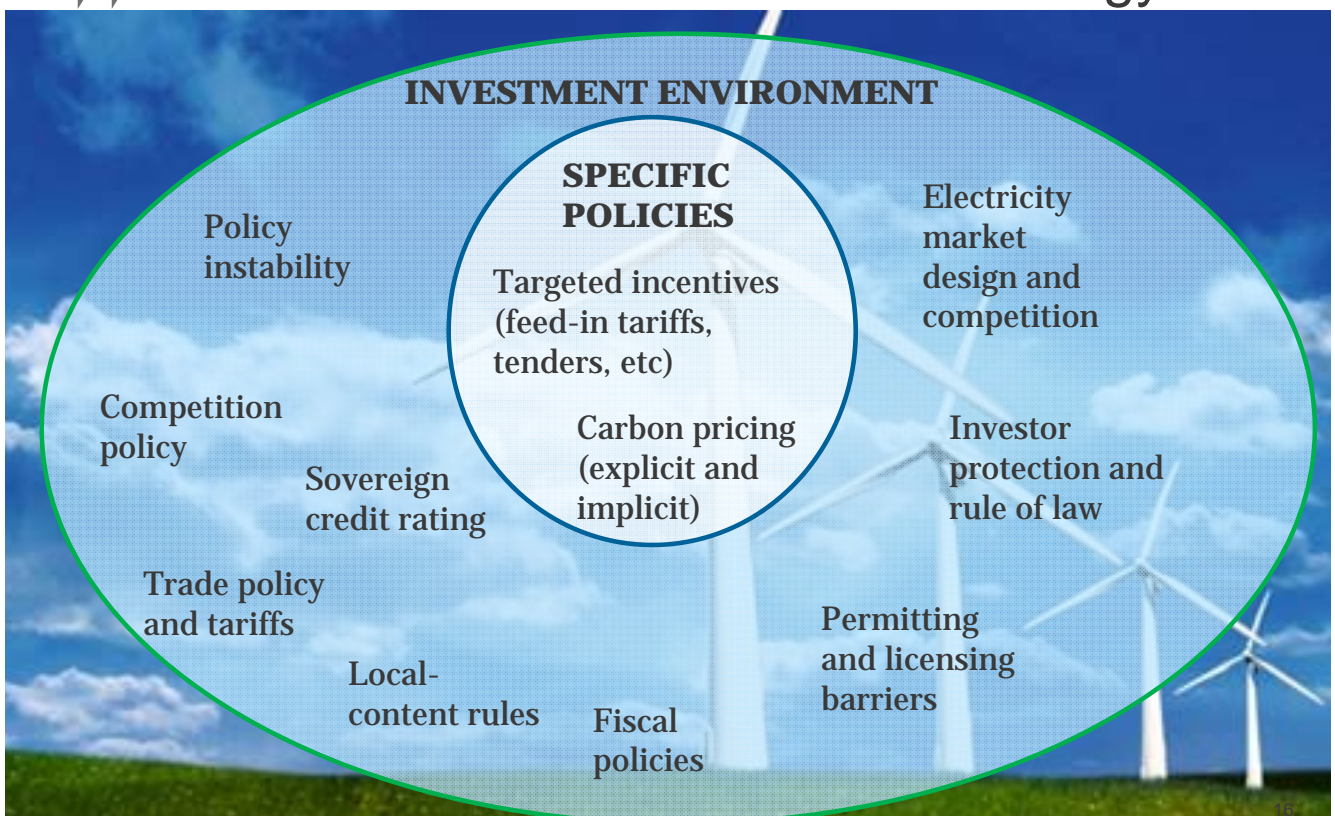
Publicly-capitalised entities with a mandate to mobilise investment in domestic green infrastructure



Analysing policies for promoting low-carbon investment: “supply” and “demand”



Enabling environment for green investment: case of renewable energy





Improving the investment environment for renewable energy

1. **OECD policy guidance:** a non-prescriptive tool to help governments unlock private investment in renewable energy



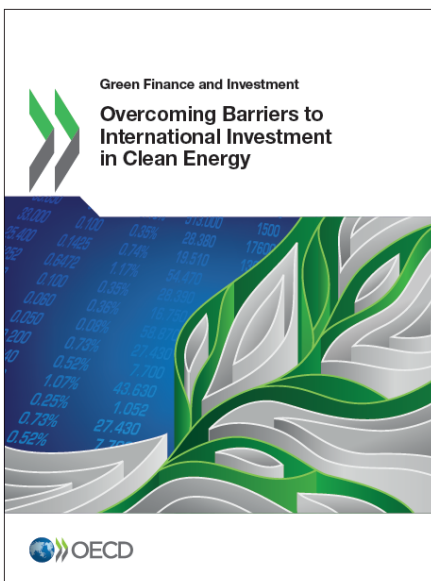
OECD, March 2015.

2. **Ongoing empirical analysis:** policy influence on investment and innovation

Assessing influence of climate policies and investment environment variables on investment flows and patent activity in renewable electricity generation (OECD and G20 countries)



“Hidden” misalignments: the case of local-content requirements for clean energy

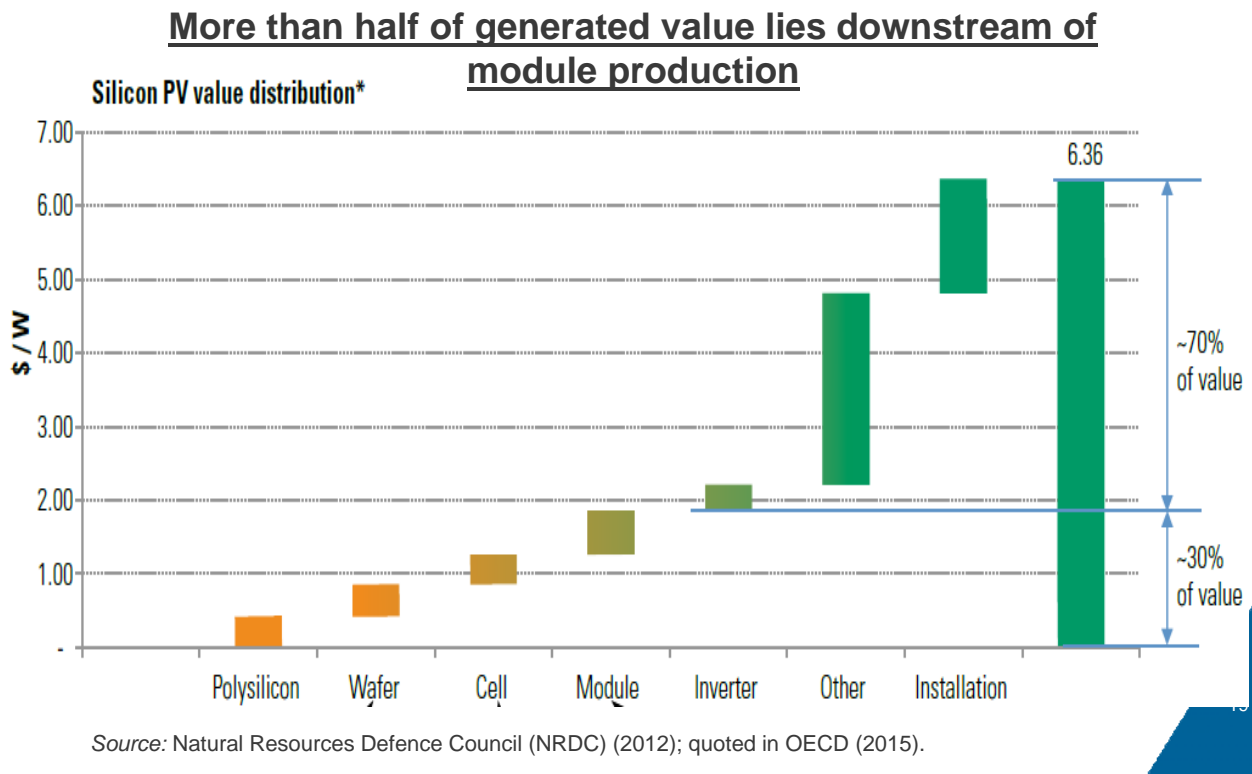


Source: OECD (2015).

- **OECD report taking stock of the use of local-content requirements (LCRs)** in solar and wind energy in OECD and emerging economies since 2008
- **Assesses empirically the impact of LCRs** on international investment in solar and wind energy
- Finds a detrimental effect on global international investment in wind and solar energy



Downstream activities generate more value added than manufacturing activities



Conclusions

- Climate policies are not sufficient to achieve low carbon transition – **policy alignment** is crucial, notably for mobilising investment
- Need to both **scale-up** investment in infrastructure and **shift** it to low-carbon
- Policy misalignments exist both for use of **public funds** and policies stimulating **private investment**
- Governments need to focus on both the “**supply**” of green finance and creating the “**demand**” for green investment, through the **enabling environment**



THANK YOU

For more information, visit:

<http://www.oecd.org/investment/clean-energy-infrastructure.htm>

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