

INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series

**Incentivizing investment in
underfunded areas, including
clean and affordable energy**

International Finance Corporation (World Bank Group)

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Introduction

Climate change is one of the largest threats to developing country prosperity. Without immediate intervention in emissions reductions, climate change could result in an additional 100 million people living in extreme poverty by 2030. At the Conference of the Parties (COP21) in Paris, December 2015, 196 countries came together to forge a climate change agreement that pledged to keep global warming to 2 degrees Celsius or less. CEOs from industries ranging from cement to technology companies made pledges to decrease their carbon footprint, buy more renewable energy, and engage in sustainable resource management. Global financial institutions pledged to make hundreds of billions of investment over the next 15 years in clean energy and energy efficiency. According to the UN's Intergovernmental Panel on Climate Change (IPCC), almost \$450 billion in annual investment is needed until 2030 to stay within a 2°C trajectory. This is 64 percent higher than the amount needed to achieve the savings outlined by current policies. Transport and buildings will account for majority of efficiency investments.

The World Bank Group (WBG) has an instrumental role to play in helping developing countries and the private sector transform to a low-carbon world economy. Increasingly, shareholders are asking companies and financial institutions to account for climate risks, including: (1) climate impact risk—where investments are affected by the physical impacts of climate change; and (2) climate asset risk—where policies create pricing that devalues the investment. To support its clients understand and manage the risks and opportunities that climate change presents, the WBG has pledged to step up its investments in climate to 28 percent of annual commitments and leverage an additional \$13 billion of private sector co-financing by year 2020.

The private sector has an essential role to play in tackling climate change and ensuring sustainable low-carbon growth. More and more companies realize that creating a **low-carbon business strategy can also be beneficial for their bottom-line**. For example, a group of leading [Carbon Disclosure Project member companies](#) reported an average IRR of 27 percent on their low carbon investments.¹ Smart policy from leading governments at all levels is creating opportunities for low carbon innovation that is helping to drive the transition to a low carbon economy. With the right policies in place, businesses will unleash new levels of innovation, create new jobs and help build a stronger economy²

The long-term financial risk of carbon-intensive economies is leading countries to develop policies that increase investments in climate mitigation and adaptation. A new study by Mercer, supported by IFC, shows that negative impacts on returns due to climate change are inevitable – irrespective of which climate scenario – 2 or 4 degree – unfolds. The study suggests

¹ [CDP](https://www.cdp.net/)- <https://www.cdp.net/>

² [FT: Green Economy: Well-run companies tend to perform better in environmental terms](#)

that a **transition to a low-carbon economy could lead to the biggest net positive returns for investors**, if investors position their investment portfolios now.³

IFC, one of the world's largest financiers of renewable energy for developing countries, accounts for two-thirds of IFC's direct power investments (excluding IFC investments through financial intermediaries), and exceeded 70 percent in fiscal year 2015. IFC supports renewable energy across the entire value chain: from advising governments on regulations and PPPs and helping firms improve their carbon footprint, to providing finance for equipment manufacturers and supporting grid-tied renewables through project finance, thus accelerating the development of renewable energy markets and improving people's access to modern off-grid energy services.

Stocktaking

In the world's poorest countries, climate change will increase the cost of development by 25 to 30 percent, according to World Bank estimates. Climate Change mitigation and adaptation will also require substantial resources: an estimated \$28 trillion in cumulative investments in low-carbon technologies and efficiency is needed globally in the next 20 years to keep the world on a 2 degree path.

Supporting climate action in both the public and private sector includes helping governments design regulations, standards, and policies that support low-carbon growth and climate-smart agriculture, and allow markets for renewable energy and energy efficiency to thrive.

Green buildings represent the single largest opportunity to address climate change pressures and improve the quality of life in developing countries. The built environment is expected to double by 2050. A study by IEA shows deployment of energy efficiency technologies – already commercially available – could result in global savings equivalent to current energy use of Russia and India combined. Unfortunately, in developing countries only a small volume of buildings are currently designed and rated as green each year. Consumers and developers are not aware of the financial benefits of resource efficient buildings and financing is not readily available or well designed to support green development. These obstacles inhibit green construction and growth, despite the fact that most green building options are highly cost effective. Under the leadership of the World Green Building Council, an ambitious pledge was released. More than 1.25 billion square meters of buildings – almost double the size of Singapore – will be registered, renovated or certified as green building space over the next five years, under ambitious commitments made by Green Building Councils at COP21 in Paris.⁴

There is a “triple win” from supporting **climate-smart agriculture**: helping farmers increase yields, improving the resilience of crops to climate change, and sequestering more carbon. Climate-smart agriculture increases productivity, increases food security, and is better for the environment. There are “mega trends” driving agricultural investment needs: population growth, increased food consumption, and water scarcity. The world needs to produce more

³ [Mercer: Investing in a Time of Climate Change](#)

⁴ [SE4ALL Global Tracking Framework Report, 2015](#)

food with less impact. According to the UN Food and Agriculture Organization (FAO), there needs to be a 60 percent increase in food production to feed the projected world population of 9 billion by 2050. Small farmers produce 80 percent of the food consumed in most of the developing world, and most lack access to sustainable and efficient production methods. About 70 percent of the world's freshwater withdrawals are used in agriculture. Modern irrigation technology can triple crop yields and improve water efficiency.

Waste management: In 2013, the world generated 3.5 million tons of solid waste per day. This figure will almost double to 6 million tons per day in 2025. In sub-Saharan Africa, municipal solid waste management can amount to 30-50 percent of a municipality's total annual budget. Landfill gases can be combusted to generate energy. Landfills generate methane, a greenhouse gas that is 21 times more potent than carbon dioxide. (Over a 20 year period, one ton of methane causes 72 times more warming than one ton of CO₂.)

Forestry: Deforestation is the third largest global source of global CO₂ emissions, and the leading source of CO₂ emissions in many tropical countries. Over the past decade, IFC has invested more than USD 1.5 billion across the forest product supply chain, some of which has contributed to sequestering carbon in forests and long-lived wood products. IFC invests in wood production, pulp and paper production, wood panel fabrication, and production of downstream wood products such as furniture and doors.

Summary

There is an unprecedented opportunity to catalyze private sector funding as global financial institutions pledge to invest hundreds of billions of dollars in clean energy and other climate investments. This demands the creation of products that attract larger institutional sources of capital through aggregation and securitization; the creation of de-risking vehicles that use blended finance to catalyze new external investment; and mobilizing capital through public-private partnerships (PPPs).