

Update of the Policy Framework for Investment

**Draft chapter:
Investment framework for
green growth**



Context

Since the PFI was developed in 2006, new forces have reshaped the global investment landscape, including the global economic and financial crisis, which started in 2008 and from which many economies have still not recovered, and the emergence of new major outward investors within the G20, the spread of global value chains. Numerous lessons have also been learnt through the use of the PFI, particularly in developing and emerging economies. To reflect new global economic fundamentals, an update of the PFI was launched in 2013 and is due for completion in 2015.

Invitation to contribute

Experts, business and civil society representatives, international organisations, and the general public are invited to contribute comments on this draft chapter. Comments should be sent to investment@oecd.org by 31 December 2014.

A compilation of comments received will be published online at the end of the consultation period.

Contact

If you have any questions regarding the consultation, please email investment@oecd.org.

Find out more about the update of the PFI: www.oecd.org/investment/pfi-update.htm

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INVESTMENT FRAMEWORK FOR GREEN GROWTH

Overview

1. Investment for green growth needs to be scaled up significantly to support the path to sustainable development. Achieving sustainable development includes meeting the two-degree¹ climate change goal agreed by governments, reducing pollution, promoting biodiversity conservation and sustainable use, and ensuring equitable sharing of ecosystem services. Green growth means “fostering economic growth and development while ensuring that natural assets continue to provide the resources and environmental services on which our well-being relies”. To do this, green growth must catalyse investment and innovation which will underpin sustained growth and give rise to new economic opportunities (OECD, 2011). Investment for green growth (or “green investment”) notably includes investment in green infrastructure (e.g. in renewable energy, energy efficiency, sustainable transport, water sanitation and distribution systems and waste management), as well as sustainable natural resources management and activities within the environmental goods and services sector (e.g. renewable energy manufacturing).

2. Investment for green growth creates opportunities for economies at different stages of development, such as: improving energy security by reducing reliance on fossil-fuel imports; reducing local air pollution and associated health costs; and stimulating innovation and technology transfer. Developing economies can also “leapfrog” older technologies to avoid locking-in carbon-intensive development pathways, while meeting rising demand for infrastructure investment. Investment for green growth can also contribute to creating value and employment across different segments of value chains.

3. Given the scale of investment needs, mobilising and scaling-up green investments implies leveraging domestic and international, public and private investment. Often, however, green infrastructure projects remain seriously constrained by specific investment barriers, including those caused by market and government failures. Key policy obstacles include notably: weak or non-existent carbon pricing; inefficient fossil-fuel subsidies; insufficient government commitment to green investment; a lack of a predictable policy and regulatory environment (e.g. through well-targeted and time-limited policy incentives); and market and regulatory rigidities that favour fossil-fuel incumbency. In addition to removing barriers, governments can support private investment for green growth by establishing a predictable and sound policy and regulatory environment for green investment. They can also mobilise private finance through domestic and international public interventions (e.g. ensuring that international public finance can leverage private finance or facilitating private sector participation in green infrastructure). A policy framework for green investment is in many respects comparable to an enabling environment that is conducive to investment in general. Policies conducive only to investment, however, will not automatically result in a substantial increase of investment for green growth. A policy framework for investment (PFI) is thus a necessary but insufficient condition for green growth and green investment. Policy makers will also need to

¹ At the 2012 United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties in Doha, governments decided to “urgently work towards the deep reduction in global greenhouse gas emissions required to hold the increase in global average temperature below 2 °C above pre-industrial levels and to attain a global peaking of global greenhouse gas emissions as soon as possible”.

improve specific enabling conditions for green investment by developing policies and regulations that systematically internalise the cost of negative externalities (e.g. by putting a price on carbon, setting congestion charges in cities, or developing financial regulations that recognise and reward environmental and social performance). The policy framework will need to send a coherent signal to investors, producers and consumers to demonstrate the value of a green versus a brown pathway for future growth and development.

4. Countries need to devise their own strategies for green investment, tailored to their specific circumstances. Ways of greening investment depend on policy and institutional settings, levels of development, natural resource environmental pressure points, as well as political will and leadership to set priorities. Despite the unique circumstances of every country, a number of common considerations need to be addressed in all settings.

5. This chapter aims to assist governments in identifying those common elements to help mobilise investment for green growth. Key issues for policy makers' consideration include:

- Ensuring **strong government commitment** at both the international and national levels to support green growth and catalyse private green investment;
- Improving the coherence of **investment promotion and facilitation** measures, including to align the broad system of investment incentives and disincentives to support green growth as a means to sustainable development;
- Reforming policies to enable green investment, including by applying essential **investment policy principles** such as non-discrimination, transparency and property protection in areas susceptible to attract green investment, e.g. in renewable energy, water resources management or multi-modal, climate-resilient transport infrastructure systems;
- Strengthening **competition policy** and addressing market and regulatory rigidities that favour incumbent fossil-fuel and resource intensive technologies and practices, for instance in the transport, electricity or water sectors;
- Providing public **financial** tools, instruments and funds to facilitate access to financing and attract co-financing for green projects;
- Enhancing co-ordination and improving **public governance** across and within levels of government, especially among environment and natural resource management, energy and investment authorities;
- Establishing policies to encourage **environmentally responsible business conduct** and broad stakeholder participation in green growth including in green investment strategies; and
- Addressing other cross-cutting issues, such as: setting policies to **support effective private sector participation** (whether international or domestic) in green infrastructure projects, including through joint ventures or public-private partnerships (PPPs); and addressing **outstanding barriers to international trade and investment** in environmental goods, services and projects.

Key questions

- 1. What are the country's priorities and objectives towards green growth and how are they reflected in: national vision or goals for development; development, land use or infrastructure plans; and policies particularly with respect to infrastructure investment and land-use?*
- 2. What policies, laws, market-based instruments and regulations (including sector-specific ones) are in place to encourage private investment in support of green growth?*
- 3. Has the government provided transitional support to green investment and uptake of green technologies and practices, for instance through well-targeted and time-limited investment incentives, or reformed financial regulations to incentivise green investment?*
- 4. Does the government respect core investment principles such as investor protection, intellectual property rights protection and non-discrimination in areas susceptible to attract green investment?*
- 5. Are the competition laws and their application in relation with green investment clear, transparent, and non-discriminatory, especially in green infrastructure markets?*
- 6. How does the government ensure consistency and coherence of environmental, sectoral, economic and investment policies that affect private green investment across and within different levels of government and public agencies?*
- 7. What steps has the government taken to align national and sub-national (including urban-level) policies that could have an impact on green investment?*
- 8. Is there a clearly defined legal framework for public procurement, PPPs and other co-financing arrangements in support of green investment?*
- 9. How does the government consult with the private sector and other local stakeholders in the design and the implementation of strategies and plans, policies and regulations that are relevant for green investment?*
- 10. Is the government addressing outstanding barriers to international trade and ensuring that green investment policies are compatible with WTO rules?*

SUPPLEMENTAL QUESTIONS

<p>Overview of green investment opportunities</p>	<ul style="list-style-type: none"> • What does the country consider to be its main challenges and opportunities for green growth? • What is the country's general resource endowment (natural resources, biodiversity, energy mix, etc.)? • What are the country's international commitments in support of green growth, e.g. greenhouse gas emission reduction targets under the United Nations Framework Convention on Climate Change (UNFCCC), or biodiversity-related engagements under the Convention on Biological Diversity (CBD)? • What are the effects of climate change in the country? What challenges do they present for adaptation and mitigation policies? • What natural resource constraints or scarcity risks exist that may constrain future development? • Has the country identified the investment needs to achieve its green growth objectives? • How does the government balance the need to meet both environmental and investment policy objectives?
<p>Government's commitment towards green growth</p>	<ul style="list-style-type: none"> • Does the country include environmental and natural resource endowment considerations in its infrastructure and / or national development plans? If so how and if not, does it plan to do so and how? • Are there policies or legislation in place that deal with private investment in the area(s) identified as priorities for green growth? (e.g. in renewable energies, energy efficiency, reforestation and/or water)? • Which ministries and agencies are involved in developing investment policies designed to support of green growth? What are their respective roles? • Do international investment (IIA) and free trade agreements (FTAs), to which the country is a party, take into account environmental issues? If so, please specify which ones and how.
<p>Investment promotion and facilitation: key policies and incentives for green investment</p>	<ul style="list-style-type: none"> • Has the government put in place pricing mechanisms, such as taxes on carbon or other emissions or land-value taxes, to support green growth? What other measures are in place to address market failures, e.g., those relevant notably to green infrastructure or land use sectors? • What incentives (e.g. subsidies, tax exemptions and feed-in tariffs) are in place to stimulate private investment in support of green growth goals? • Are incentives time-limited and appropriately targeted? (see chapter on Tax Policy for tailored guidance on tax incentives) • How does the government monitor and assess the objectives, costs and success of policy measures in support of green investment and what types of benchmarks for success are in place, if any? • On environmental effectiveness and monitoring: How does the government assess and monitor the costs and environmental effectiveness of taxes, subsidies and other incentives for green investment (ex-ante and ex-post)?

	<ul style="list-style-type: none"> • What steps is the government taking to make green investment policies part of a broader national infrastructure, energy, land-use planning, environment and climate strategy framework? • What steps has the government taken to promote linkages between green businesses, especially between foreign affiliates and local enterprises? (see the chapter on investment promotion and facilitation for an in-depth treatment of investment linkages) • What measures has the government put in place to address the specific challenges faced by SMEs to invest in green growth?
Investment policy and enabling policies for green investment	<ul style="list-style-type: none"> • How does the government ensure that laws and regulations governing green investment are non-discriminatory across different types of investors, whether public or private, foreign or domestic? • What steps is the government taking to protect intellectual property rights for green technologies? Are laws and regulations for the protection of intellectual property rights for green technologies effectively enforced? • What steps is the government taking to facilitate patenting of innovation in green sectors? • How does the government ensure a balance between the protection of intellectual property and the need to disseminate environment-friendly technologies? • Is the system of contract enforcement effective and widely accessible to all investors in green infrastructure? • What steps is the government taking to facilitate the business licensing process for green projects? • Is the government addressing green protectionist measures (such as local content requirements) that are increasingly being challenged in investor-state dispute settlement (ISDS) and international treaty claims? At the same time, is the government monitoring whether investment treaties are interfering with environmental policies?
Competition Policy	<ul style="list-style-type: none"> • To what extent, and how, have the competition authorities addressed anti-competitive practices by incumbent enterprises, including state-owned enterprises (SOE), that inhibit green investment and hinder green growth? • Do private investors and producers benefit from non-discriminatory access to finance for green investment? • How is the ownership function of SOEs in green infrastructure sector structured to ensure a level playing field between SOEs and private companies, competitive market conditions, and independent regulation? In the electricity sector for instance, have SOEs been structurally separated to facilitate investment of independent power producers (IPPs) in renewable energy generation, transmission and distribution? • Do public procurement policies include environmental and green growth considerations such as resource-efficiency, pollution abatement and climate resilience? How are these criteria communicated to potential providers?

Financial market policy and financial instruments	<ul style="list-style-type: none"> • What financial instruments and mechanisms (e.g. risk-mitigation and return-enhancement mechanisms, preferential loans, green bonds, green investment banks or green funds by private banks) are in place to stimulate private investment in support of green growth, including to attract long-term institutional investment? • What financial regulations are in place that may incentivise investment to provide green growth benefits?
Public governance	<ul style="list-style-type: none"> • What mechanisms are in place for managing regulatory reform across different levels of government to ensure consistent and transparent application of regulations and policies designed to promote green growth, and clear standards for regulatory quality? (e.g. steering committees, roundtables, issuance of environmental licenses etc.) • What steps is the government taking to ensure the independence of regulators (e.g. for electricity markets)? • Are environmental and green growth considerations such as long-term climate change impacts accounted in public procurement of infrastructure projects such as roads, and into national and sub-national infrastructure planning? • Has the government fully integrated green infrastructure planning with land-use planning? • Has the government integrated green growth consideration in urban land-use planning and zoning policies (e.g. to discourage urban sprawl or avoid new infrastructure facilities to be located in flood-prone areas)?
Promoting green business conduct and stakeholder participation in green growth	<ul style="list-style-type: none"> • Are environmental impact assessment requirements in place and adequately enforced? • What measures has the government taken to promote “green” responsible business conduct (e.g. reporting of corporate environmental information, application of environmental management systems; training of staff in environmental issues, information to consumers, certification and labelling, etc.)? • How is the government consulting with other civil society groups and encouraging public (including consumers’) awareness of and engagement with green growth objectives? • What measures are in place to promote skills development (in both the public and private sectors) and prepare the labour force in areas relevant to green investment?
Regional co-operation	<ul style="list-style-type: none"> • Has the government made use of international and regional initiatives aimed at building expertise to promote green investment?? • What steps is the government taking towards the regional integration of national and sub-national infrastructure markets?
Making and implementing the choice between public and private provision for green growth	<ul style="list-style-type: none"> • Is the government considering using public-private partnerships (PPPs) to mobilise private sector funding and/or expertise in the development and management of green infrastructure? • Are the conditions in place to ensure the financial sustainability, accountability and “value for money” of green PPP projects (e.g. administrative capacity within the relevant government institutions, competitive bidding processes, output-based contracts, dispute resolution mechanisms)?

Trade policy	<ul style="list-style-type: none"> • How actively is the government increasing green investment opportunities through trade agreements and through the implementation of its WTO commitments?
Biodiversity, water and natural resource management	<ul style="list-style-type: none"> • Does the government rightly price natural resources (i.e. water) to provide a stable economic incentive for green investment (i.e. investing more in water infrastructure and in environmentally-sound treatment of natural resources)? • Does the government use innovative financial mechanisms for scaling-up finance and investment for biodiversity, such as Payments for Ecosystem Services (PES), environmental fiscal reform or biodiversity offsets? • Does the government ensure resource and land rights regimes that safeguard the interests of stakeholders who have a special dependence on the resource in question and who do not necessarily have formal property rights to the land that they occupy, particularly in remote rural areas? Does the government hold consultations with them?

ADDITIONAL RESOURCES

Web pages

www.oecd.org/investment/green.htm

www.oecd.org/env/cc/financing.htm

www.oecd.org/greengrowth

Tools, Guidance, Manuals

Ang, G. and V. Marchal (2013), “Mobilising Private Investment in Sustainable Transport: The case of land-based passenger transport infrastructure”, *OECD Environment Working Papers*, No. 56, OECD Publishing, Paris.

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OECD (2013a), “How to unlock private investment in support of green growth?”, Issue Note prepared for the Green Growth and Sustainable Development Forum 2013 , 5-6 December, 2013, Paris.

OECD (2013b), “Enabling Investment in Sustainable Energy Infrastructure”, *OECD Post-2015 Series*.

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IEA (2014), *Energy Technology Perspectives 2014*, OECD/IEA Publishing, Paris.

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Reviews, Case/Country Studies and Indicators

Francke, E. et al. (2012), “The Mobilisation of Private Investment for Low-carbon, Climate-Resilient Infrastructure: The Case of Metrobus Bus Rapid Transit System in Mexico City”, case study prepared by CTS EMBARQ Mexico for the OECD.

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OECD (2012a), *Investment Policy Reviews: Tunisia 2012*, OECD Publishing, Paris.

OECD (2012b), *OECD Investment Policy Reviews: Colombia 2012*, OECD Publishing, Paris.