

UNCTD XIV

WORLD INVESTMENT FORUM

Nairobi, 21 July 2016

Fostering Green Economies through Trade, Investment & Innovation

Arvind Mayaram

Climate change and its disastrous effects is something every policy maker is now aware of. Therefore, every country is moving towards incorporating the principles of green economy into their policies. In India too, several steps are being taken to operationalise these recommendations. Some of these have already been put into action:

- A. National and State Action Plans on Climate Change have been put in place which include National Solar Mission - a comprehensive policy aimed at incentivising solar power generation up to 100 GW by 2022, Smart Cities initiative to create 100 smart cities, Dedicated Freight Corridors – a project expected to reduce emissions by about 457 million ton CO₂ equivalent over a 30-year period, Urban Mass Rapid Transport Systems with a significant potential to reduce CO₂ emissions, National Electricity Mobility Mission 2020 geared towards promoting hybrid and electrical mobility, and Vehicle Fuel Efficiency

Programme , amongst others, which aims at keeping 50 million tons of CO₂ out of the atmosphere.

- B. Green bonds have emerged as one of the ways to raise capital to promote sustainable development-linked infrastructure. They are being resorted to provide Indian sustainability financing requirements given the overreliance on the banking sector which suffers from an asset liability mismatch. The Export Import Bank of India has recently raised money through a larger US\$500 million green bond from international investors. The bond will finance renewable energy and low carbon transport projects.
- C. Another area in which a lot of work is being done is circular economy. Essentially, the concept focusses on endless recycling of resources to minimise waste and pollution. This could also define next generation of manufacturing and could also be linked to the ‘Make in India’ initiative of the Government of India. It is expected that this could actually make manufacturing cheaper while mitigating adverse impact on environment. According to Ellen McArthur Foundation over a trillion dollar can be generated by 2025 if companies move towards circular supply chains. In the case of Europe alone, it’s GDP if set on circular path could increase by 11% by 2030 as opposed to 4% in the current scenario. This indicates a huge opportunity for a country like India, which is

already struggling with two related problems of boosting manufacturing and creating jobs.

D. Recently, Ministry of Environment in India initiated steps to re- launch India's eco-labelling scheme called Eco-Mark. The focus is mainly on products made out of waste. This is closely linked to the concept of circular economy. The trade related concern here is that Eco-labelling could act as Non-Tariff Barriers and therefore, requires further coordination amongst trading partners.

However, the task of greening economies is daunting as financing would still be a major challenge. Let us look at the numbers. For meeting the infrastructure deficit itself, the investment needs in a business as usual scenario is estimated at \$100 trillion. This translates into about \$5 trillion per year. This in itself is a daunting number. But if wish to move towards greening of economies, which we must, this estimate goes up to about \$115 trillion. Now let us look at the lending capacity of the multilateral financial institutions. World Bank, the largest of them, lends around \$40 billion a year for not just infrastructure but also every other sector that it covers. AIIB and NDB are projected to have a cumulative loan portfolio of \$124 billion and \$61 billion respectively by 2025. Cumulatively, all multilateral development banks have pledged to finance \$400 billion, or around \$135 billion a year,

to finance SDGs. Net development assistance from OECD countries to the developing countries totalled \$135 billion. Even if we look at global FDI flows, which were \$1.3 trillion 2014, the numbers don't add up to the financing gap that we see. In India the Expert Group set up under the former Planning Commission to evolve 'Low Carbon Strategies for Inclusive Growth' estimated the cumulative costs of implementing low carbon strategies in India at around US\$834 billion. So even though pooling of public and private resources and creating a strong framework of People First PPPs in developing countries is now accepted principle under SDGs, very much more is required to be done to assure requisite finance to fulfill Agenda 2030. However this would require massive effort at capacity building. We at CUTS Institute for Regulation & Competition are committed to work with others in capacity building in People First PPPs in the developing countries.

There is also the question of accountability of the Advanced Economies in the greening of economies. Much of the global warming has occurred due to wanton use of fossil fuels and wasteful consumption followed by these countries over many decades. By doing so they have been able to provide basic amenities like power and water to

their citizens. The developing countries which are now in the process of providing these to their citizens are burdened with commitments to reduce warming which carry a huge cost. This cost adds up because of three factors:

- a. Non-use of natural resources, like coal which is locally available, for producing power and moving to imported natural gas or costly non-renewables.**
- b. Importing costly technologies from the advanced economies, even when sister by long term concessional loans by MDBs that would have to be repaid. The cost of imported technologies includes the cost of IPR which is often monopolistic in nature.**
- c. The pace of providing basic amenities to the poor and the marginalised slows down because of the increased costs.**

Therefore, there is an urgent need for determining how this gap would be met, specially for the developing countries and how the AEs would share more equitably the burden of the greening of the economies. Perhaps UNCTAD should bring together all stakeholders including governments, multilateral organisations, international financial institutions and civil society organisations to address squarely the issue of financing of green economies.

2016 World Investment Forum
Panel on Promoting Investment in Urban Development

Talking Points
Arvind Mayaram

Urbanisation is accelerating all over the world and the transformation is throwing up new challenges to finance urban development. It is important to understand these challenges to initiate policy responses.

Cities in developing countries face three major challenges:

- a. Unmitigated migration and therefore exponential growth in population
- b. Poorly planned city development resulting in breakdown in infrastructure and services
- c. Depleting resources like water and shortage of other basic services like electricity

The answer lies in:

1. Developing smart cities with extensive use of technology and smart planning tools
2. Efficient and differential pricing of services to eliminate wasteful consumption
3. Deployment of greater resources for development and maintenance of public infrastructure and services
4. Greater accountability of service providers through better performance standards, closer monitoring of deliverables and more effective answerability to the beneficiary communities

Private sector, including FDI, can be selectively integrated in the urban development process and its resources and efficiencies harnessed to face the challenges at the city level, including affordable housing. Largely this would have to be done through People First PPPs.

As urban areas provide critical mass, infrastructure and associate services can easily be made commercially viable through necessary intervention from the public sector (example VGF) and appropriate risk allocation in the concession/contract. However this would require massive capacity building effort in public officials to manage PPP transactions efficiently and in a transparent manner.

However, urban development even as a blend of public and PPP investment requires long term financing. For long term financing of equity and debt, private sector partners would need a proper regulatory framework, smart financing instruments (like REITS and InvITs) and public sector incentives. At the city level within the local governments or IPAs, the capacity for managing such partnerships or developing such instruments is low and therefore there is need for knowledge dissemination and capacity building. It is also important for the city governments to understand the complex and sophisticated world of finance and examine the emerging financing instruments such as REITs and InvITs, and green bonds to facilitate long term financing.

There are several areas in which interesting work has been done to attract PPPs in green urban infrastructure and services. These include:

1. Waste to energy projects
2. Independent solar/wind power projects to provide energy to urban areas
3. Solar city lights
4. Metro, light rail, electric buses projects to reduce CO2 emissions
5. Waste water recycling projects

However, these are mostly standalone projects and have not been integrated in a city-level smart green infrastructure and associate services plan.

Most of the standalone projects are now been given out as PPP concessions and are attracting private sector. Due to inefficient pricing policies, the private sector role is largely restricted to collection, generation and distribution with annuity payments while pricing and collection is retained by the public sector.

It is important to have an integrated smart plan for green infrastructure and services to attract private sector in a big and meaningful way. The projects should be comprehensively planned, the performance standards and enforcement of these clearly spelt, risk allocation between the public and the private sector should be appropriate (including commercial risk), and the regulatory framework should be enabler of private participation.

Cities must work closely with knowledge partners to create the right eco-system.