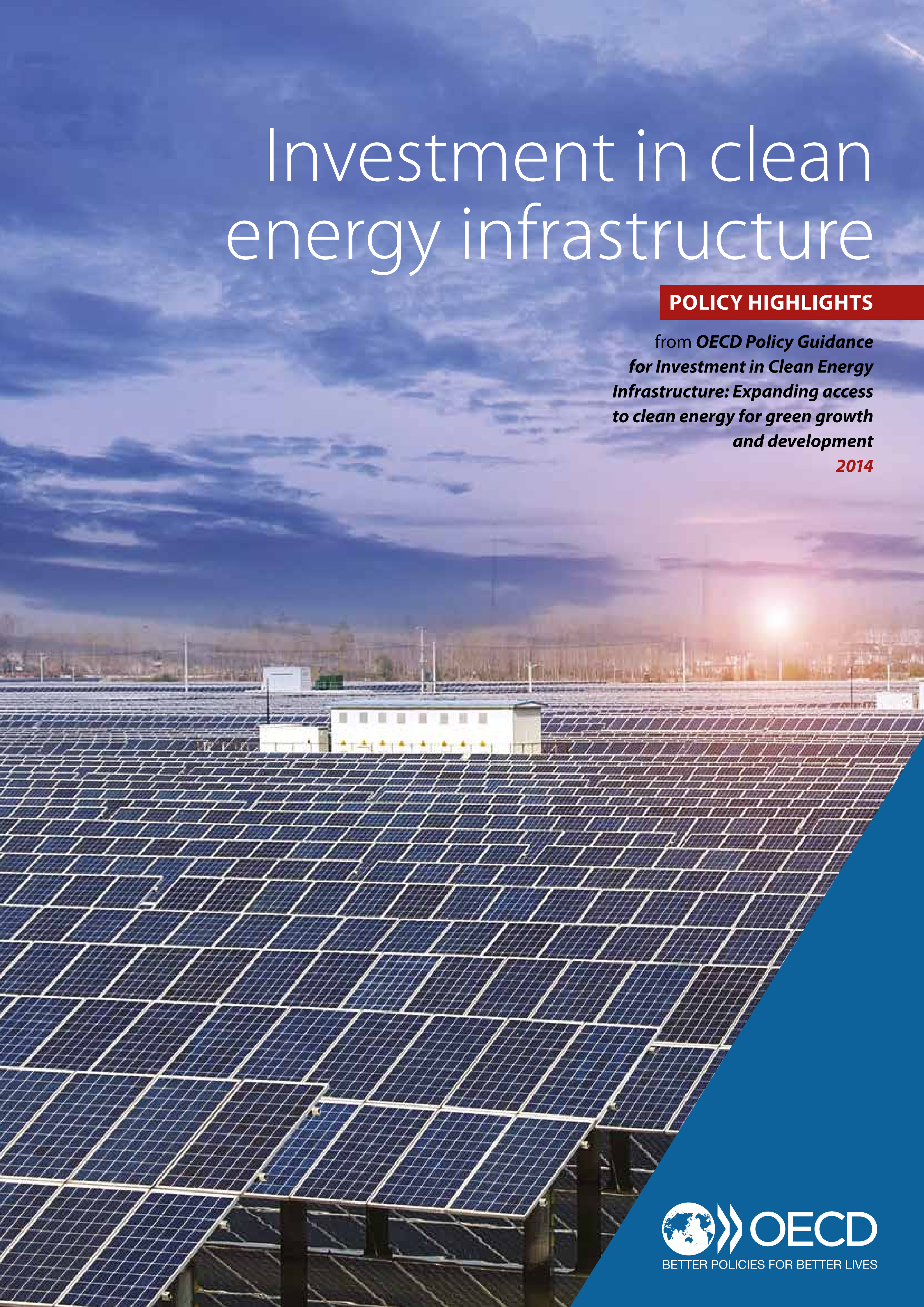
Investment in clean energy infrastructure

POLICY HIGHLIGHTS

from ***OECD Policy Guidance for Investment in Clean Energy Infrastructure: Expanding access to clean energy for green growth and development***
2014



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OECD Policy Guidance for Investment in Clean Energy Infrastructure

A non-prescriptive tool to help policy makers identify ways to mobilise private investment in clean energy infrastructure.

Historically, rising demand for energy has mostly been met with fossil fuels. Moving forward, investments need to be shifted to low-carbon, climate-resilient energy infrastructure and scaled-up significantly in OECD countries and developing and emerging economies to support the broader development, economic, energy security and climate agendas. To mitigate these risks we need to radically transform our economies and societies, including the energy sector. While this is ambitious, it is achievable. Governments have a key role to play in strengthening the enabling environment for clean energy infrastructure investment.

The OECD *Policy Guidance for Investment in Clean Energy Infrastructure* is designed to assist policy makers in developing and emerging economies to address investment barriers and identify ways to mobilise private investment in renewable energy and energy efficiency in the electricity sector. It raises issues in a non-prescriptive manner for policy makers' consideration in the areas of investment policy; investment promotion and facilitation; and competition, financial market and public governance policies.

An internationally recognised tool

The *Policy Guidance* benefited from substantial contributions by the World Bank and the United Nations Development Programme (UNDP) and was annexed to the Communiqué of G20 Finance Ministers and Central Bank Governors at their meeting in October 2013. It was also presented to UN Secretary-General Ban Ki-moon as well as to the UN Sustainable Energy for ALL (SE4ALL) initiative, and can usefully contribute to the objectives of that initiative.

Partnership opportunities and possible applications

Starting in 2014, the OECD, in partnership with other international organisations, will tailor the *Policy Guidance* to the specific needs of partner governments to help them make the most of their clean energy investment potential. In addition to providing a basis for country-specific reviews, the *Policy Guidance* can facilitate cross-country comparisons and multi-stakeholder policy dialogues on approaches for enhancing private investment in clean energy infrastructure.

Why is private sector investment in clean energy infrastructure important?

Clean energy investment creates opportunities for OECD countries and developing and emerging economies, including:

- "leapfrogging" older technologies to avoid being locked into carbon-intensive development pathways;
- reducing fossil-fuel reliance for energy-importing countries;
- creating domestic jobs;
- facilitating cost-effective access to energy in rural and remote areas; and
- fostering innovation.

Investing in clean energy makes economic sense. The IEA estimates that every additional dollar invested today in clean energy can generate three dollars in future fuel savings by 2050*.

Given the current strains on public finances and the scale of investment needs in clean energy, achieving the transition to clean energy will entail leveraging both international and domestic private financing. Private investment in clean energy infrastructure however remains seriously constrained by investment barriers, such as higher upfront costs, higher perceived risk and longer investment timelines compared to fossil-fuel based alternatives.

A range of factors contributes to these barriers: weak or non-existent carbon pricing; a lack of a predictable and stable policy and regulatory environment; market and regulatory rigidities that favour fossil-fuel incumbency in the electricity sector; a lack of support policies to help immature green technologies achieve competitiveness with incumbent technologies; high financing costs and outstanding barriers to international trade and investment.

* *Energy Technology Perspectives 2012: Pathways to a Clean Energy System*, OECD/IEA.

Key issues for policy makers:

- **INVESTMENT POLICY:** applying investment policy principles such as non-discriminatory treatment of international investment in clean energy, intellectual property protection, transparency and contract enforcement;

- **INVESTMENT PROMOTION AND FACILITATION:** improving coherence of the broad system of investment incentives and disincentives, with the objective of shifting incentives away from conventional energy towards clean energy through facilitating the licensing of renewable energy projects, removing inefficient fossil-fuel subsidies, and putting a price on carbon through the use of carbon taxes, emission trading schemes and other carbon pricing instruments;

- **ENERGY MARKET DESIGN/COMPETITION POLICY:** levelling the playing field for independent power producers (IPPs) and state-owned enterprises (SOEs) and between national and foreign private actors in order to tackle market rigidities that favour fossil fuel incumbency in the electricity sector; establishing a wholesale electricity market that can accommodate an increase in renewable energy generation; and allowing multiple actors to engage in electricity generation as well as transmission/distribution by designing open and transparent procurement processes for renewable energy projects;

- **FINANCIAL MARKET POLICY:** strengthening domestic financial markets and instruments, and facilitating access to international capital markets and long-term finance;

- **PUBLIC GOVERNANCE POLICY AND ENERGY MARKET INSTITUTIONS:** enhancing co-ordination and improving governance among different parts and levels of government for the efficient design and implementation of clean energy policies and infrastructure projects, through improving the governance and regulatory quality of electricity markets, mapping of geographical distribution of renewable energy resources, and co-ordinating deployment of the electricity grid with that of clean energy generation;

In addition, other policies and cross-cutting issues should be taken into account. Examples include regional co-operation, making and implementing the choice between public and private provision of clean energy infrastructure, and ensuring that clean energy policies are compatible with World Trade Organization (WTO) rules.

Country-specific applications

The review process in each country will be inspired by the OECD's Investment Policy Reviews (IPRs), which use the *Policy Framework for Investment (www.oecd.org/investment/pfi.htm)* as a basis for helping countries to assess and reform their investment regimes.

In recent years, a number of countries conducting IPRs have dedicated a chapter to green infrastructure investment, and notably to renewable energy investment. To date, this includes Colombia, Costa Rica, Jordan, Malaysia and Tunisia.

The IPR process involves an assessment undertaken jointly by the OECD and the government of each partner country. In a similar way, reviews conducted using the *Policy Guidance for Investment in Clean Energy Infrastructure* will be based on the priorities of each government and designed to facilitate a systematic approach to clean energy investment climate reform. These reviews will engage the partner country in a cross-government appraisal of investment-related policies, including through the establishment of an interagency task force. One of the outcomes of the process will be the publication of a Clean Energy Investment Review.

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www.oecd.org/investment/investment-policy/clean-energy-infrastructure.htm

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