

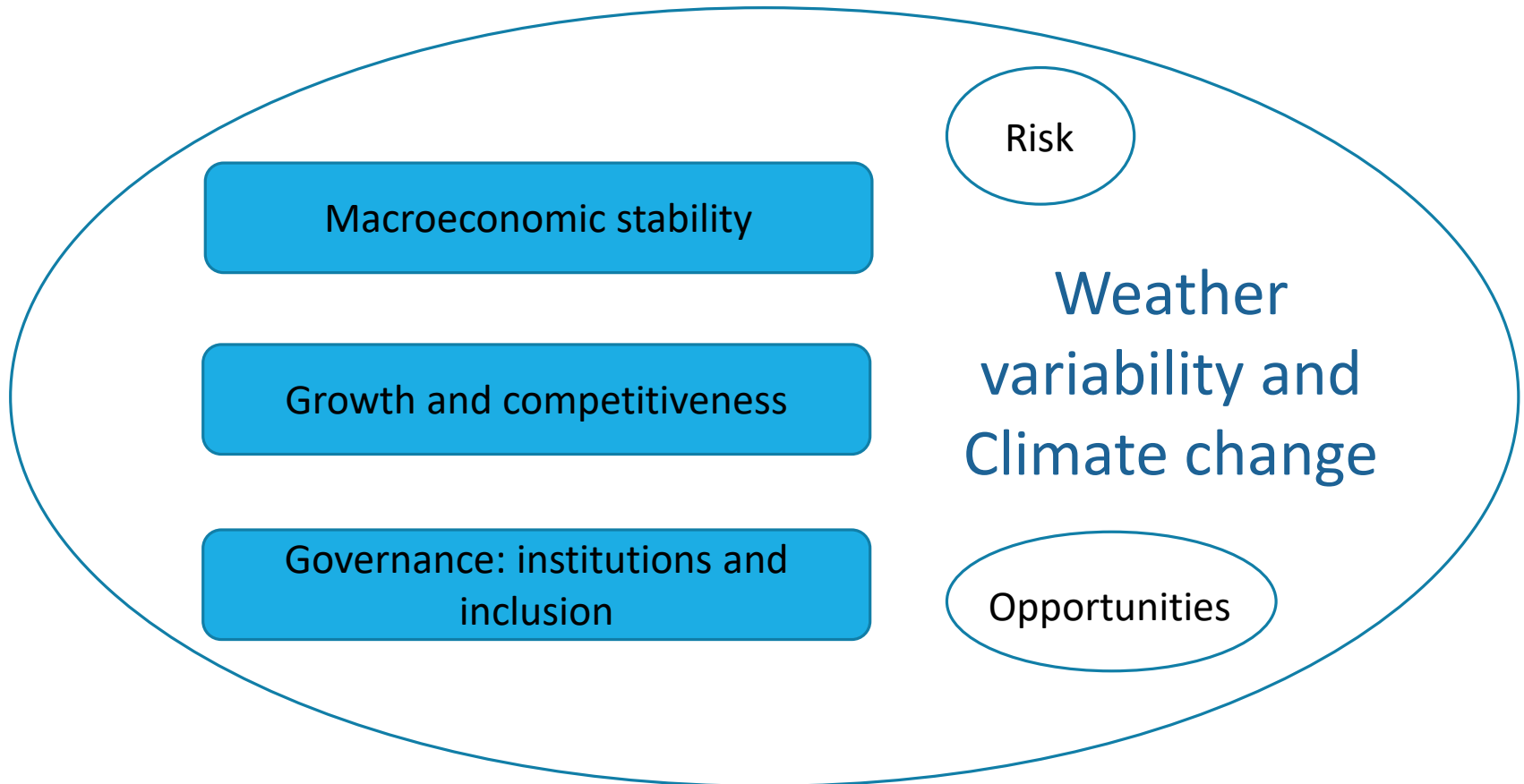
G-24 TECHNICAL GROUP MEETING LIMA, PERU
March 14-15, 2019

**Managing Sustainable Investments and
Growth: some perspectives**

Elsa Galarza Contreras
Universidad del Pacifico
March 15, 2019



Economic Growth and Sustainability



Macroeconomic stability

Growth and competitiveness

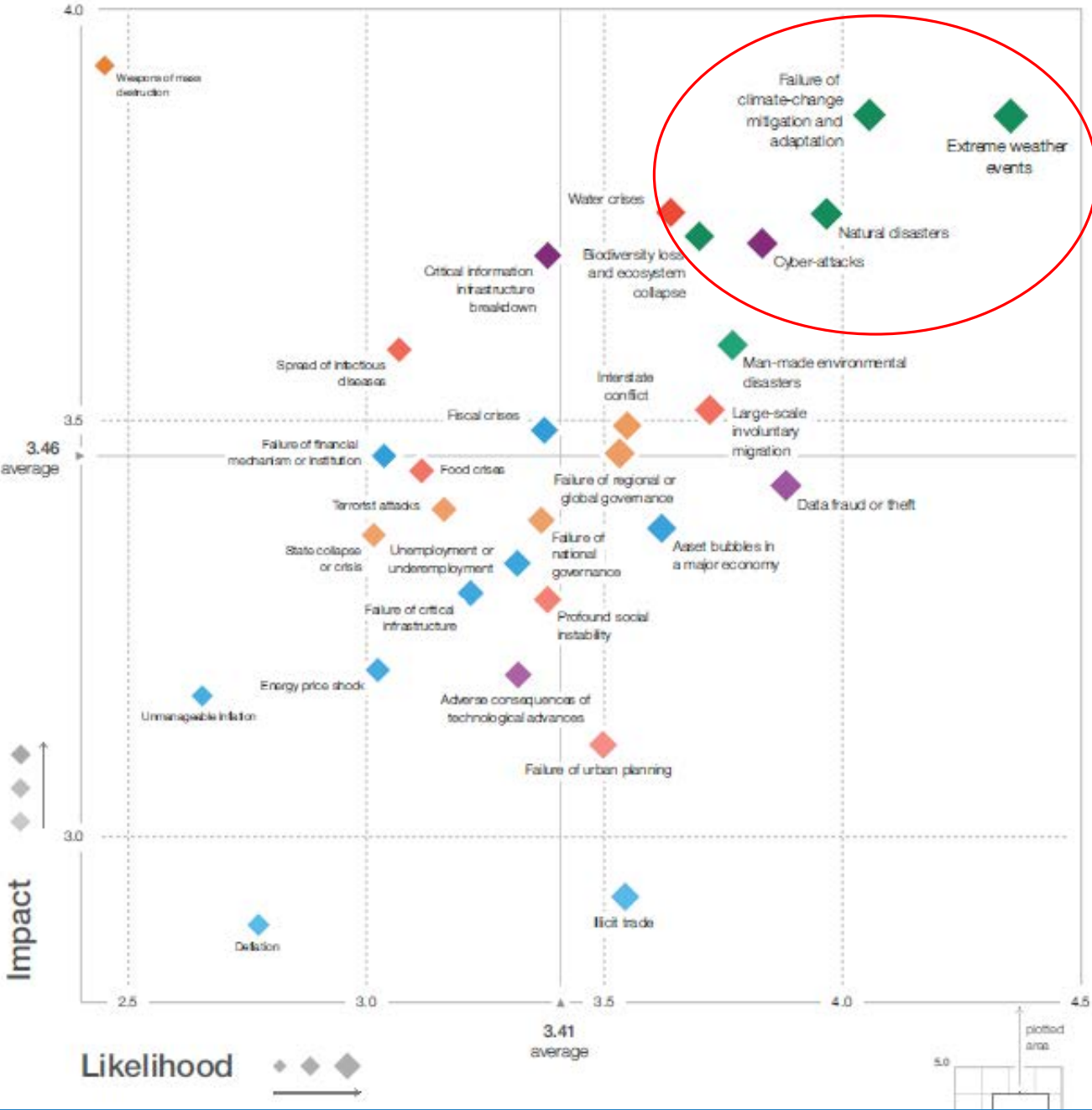
Governance: institutions and inclusion

Risk

Weather variability and Climate change

Opportunities

Global Risk Report 2019



Source: The Global Risk Report 2019. World Economic Forum

The Context: Climate change

- Climate change impacts:
 - Melting of ice mass at the poles, Rising sea level
 - Floodings
 - More extreme weather: drought, fires, etc.
 - Climate refugees
 - Destruction of the food chain and economic resources
- Climate change benefits:
 - Ambitious climate action could bring a \$26 trillion boost to the global economy between now and 2030.
 - Climate action could also deliver more than 65 million additional jobs by 2030
 - Save more than 700,000 lives from air pollution
 - Increase women's participation in the labor force.

Acting on climate isn't a choice, it's a necessity, but how do we pay for it?

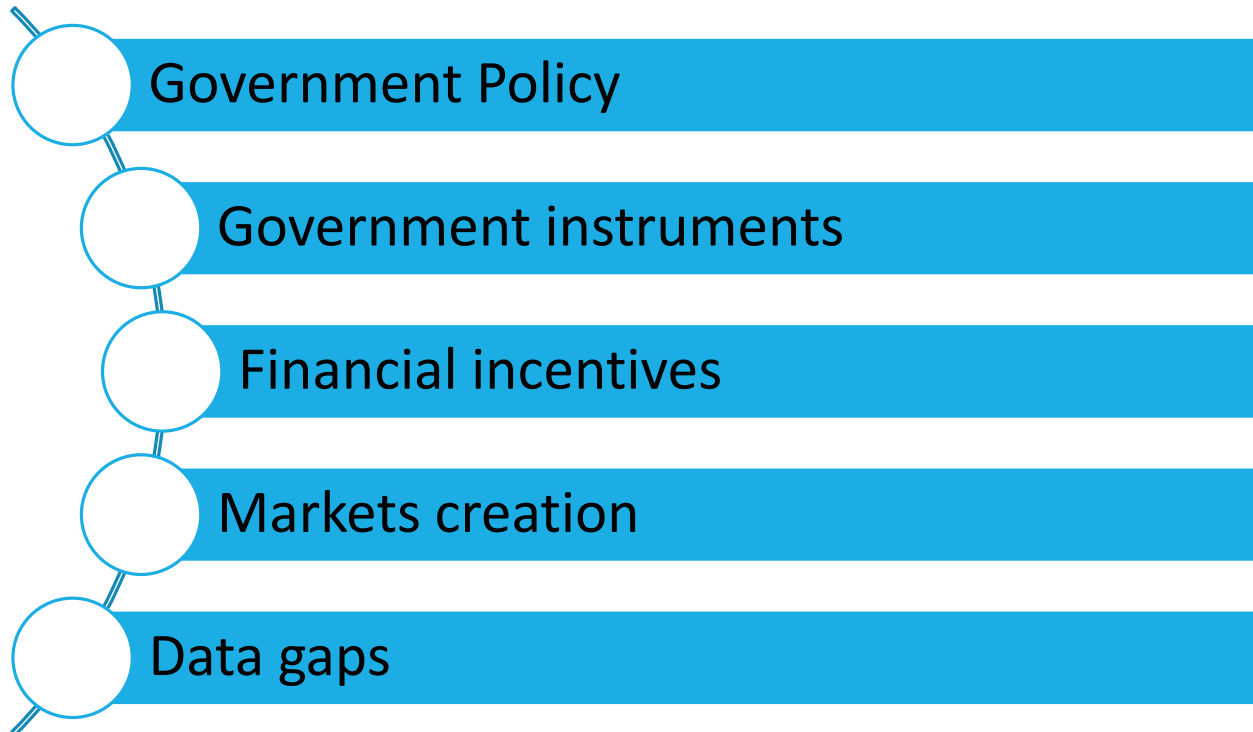
- Estimated **\$ 5-7 trillion per year over** the next 15 years to solve climate change and to meet UN SDG.
- At UNCC COP24:
 - The WB announced that it will double its investments in climate action to US\$ 200 billion for 2021-2025.
 - Nine big development banks agree to align their work to support implementation of the Paris Agreement.
 - Some other countries came forward with new commitments for climate finance.
- Not enough, still a huge financing gap.

But...good news

- Institutional investors –pension funds, insurance companies, sovereign wealth funds– have shown a willingness to invest in projects that can achieve strong financial returns while achieving critical environmental goals.
- More than 500 companies and organizations with combined market capitalisation of over US 7.9 trillion are committing to ensuring transparency and disclosure of climate-related financial risks.

The key is how to encourage those dollars to flow toward Climate Change and SDG

5 key elements for sustainable investments



1. Government policy

- Leveraging **government leadership** to catalyze private sector investment. More important thing to get right. Nationally Determined Contributions (NDC) for Climate Change is an opportunity.

Examples:

- a. Policy related renewable energy portfolio standards
- b. Forest Codes which requires landowners in the Amazon to maintain 80% of their property under native vegetation
- c. Price on carbon for lower greenhouse gas emissions

2. Government instruments

- Market evolution:
 - Cost environment-friendly technologies comes down over time
 - Relative costs

Ensuring:

- a. prevailing technology is priced at its full environmental and economic cost
- b. reduce any distortion as subsidies

2. Government instruments

- Forms of financing which compensate the private sector for the “incremental cost” or the risk: blended finance
 - a. Green bonds markets
 - b. Green Banks: financial institutions that partner with private sector to accelerate deployment of green infrastructure and clean energy projects.
 - c. They can be public, quasi-public or independent institutions, also from municipal to regional or national level.

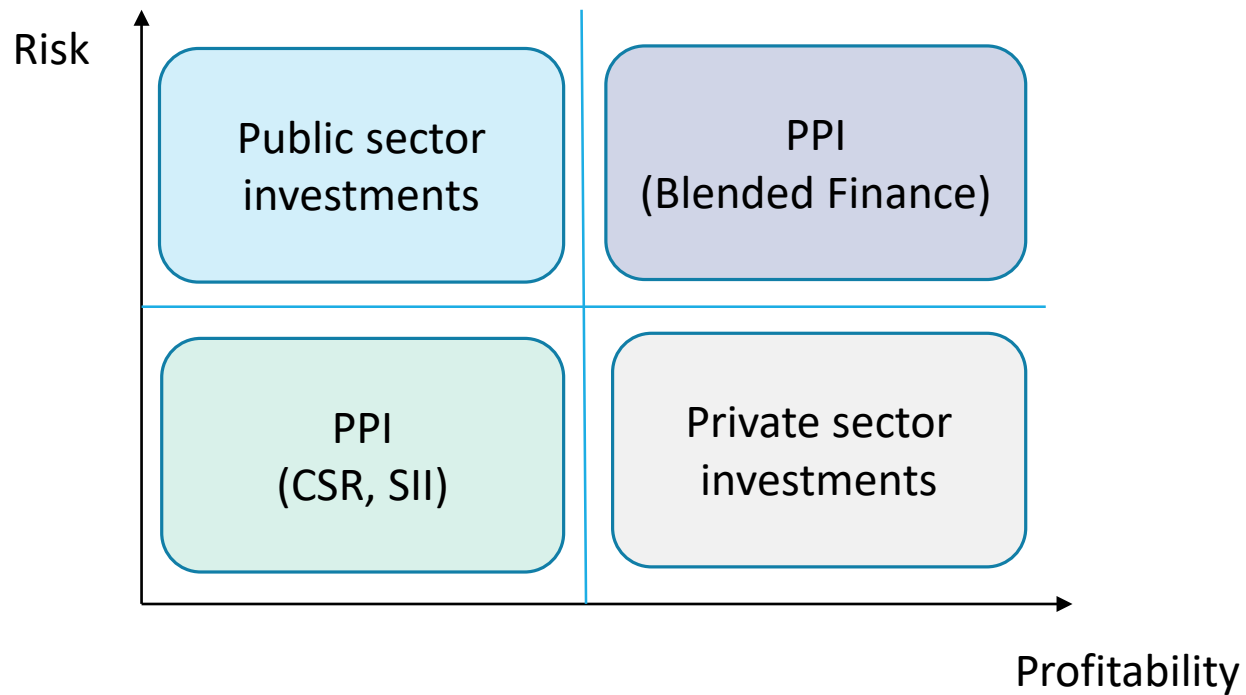
3. Financial incentives

- Besides comply local or international regulations or to create a green image, private sector needs more incentives for environmental investments

Examples:

- a. Capital tax exemptions
- b. Accelerated depreciation schemes
- c. Tax breaks
- d. Subsidies for clean technology

Risk and Profitability



4. Market creation

- Little incentive to invest in watershed protection, biodiversity conservation or fixing carbon dioxide, because its produce only non-monetary benefits.

Action needed:

- a. Capture the economic importance of the environment in the form of cash flows
- b. Examples of created markets: intellectual property rights, biodiversity prospecting, carbon offsets.

5. Addressing data gaps

- Build or scale up business cases need to **develop data and indicators** to incorporate environmental risk into decision making.
- Data could lead investors to better **understand the material risks** that unmitigated climate change poses to their portfolios.

Final remarks

- There is a **global recognition of the urgent problem of climate change** and the need for multidisciplinary approaches: Nobel Prize 2018 in economics Nordhaus and Romer.
- The solid **scientific evidence, innovations** and **growing awareness** should give some promising signs for the coming years.
- Leaders have the rules, the science, and the incentives. Now they need to find the **political will** to step up action.