Speech by World Bank Group President Jim Yong Kim: “Sending a Signal from Paris: Transforming the Economy to Achieve Zero Net Emissions”

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Hello everyone.

First, I would like to thank the Council on Foreign Relations for graciously hosting this event. And thank you, Mark, for your kind introduction. The Nature Conservancy has been an important actor on climate change and environmental preservation issues worldwide, and you have made it even more so with your innovative leadership. And given the time you’ve spent in the financial world, you know well one of the themes of my talk today – that economic policy is the key to mobilizing a coordinated global response to climate change.

I won’t be able to travel to Peru to attend the 20th Conference of the Parties to the United Nations Framework Convention on Climate Change this week. However, I will be watching closely as the delegates set the stage for an agreement to be reached in one year’s time in Paris that should transform the way we live for generations. At this key moment, I’m pleased to return to the Council on Foreign Relations to share the World Bank Group’s vision of a Paris Agreement.

The World Bank Group works on climate change because it is a fundamental threat to development in our lifetime. We know that if we don't confront climate change, there will be

no hope of ending poverty or boosting shared prosperity. Furthermore, the longer we delay in tackling climate change, the higher the cost will be to do the right thing for our planet and our children. Our series of *Turn Down the Heat* Reports, and our work on green growth and the links between development and climate, makes it clear that the progress of recent decades toward ending poverty is at risk.

Last month, these points were emphatically punctuated with the release of the Intergovernmental Panel on Climate Change's 5th assessment report. This unprecedented scientific consensus concludes that, if we are to stabilize warming at 2 degrees Celsius, as the international community agreed to in 2009, we must achieve zero net emissions of greenhouse gasses before 2100.

Why Paris is important

In a year's time, the international community will have the opportunity to send a clear signal that we, as a global community, are determined to manage our economies to achieve zero net emissions before the year 2100. Every country finds itself at a different point in the development journey. Therefore, the pace and rhythm of their emissions reductions and investments in adaptation will vary. Nonetheless, we have the opportunity in Paris to make clear our collective ambition. That ambition can be translated into long-term demand for clean growth and an increased commitment to adaptation. The higher the ambition, the greater the demand will be for programs and projects that will transform economies. Higher ambition will also send a strong message to investors – public and private, domestic and foreign – about the demand and profitability of long-term investments in clean energy and transport systems, sustainable agriculture and forestry, and new resource efficient products.

Paris must be where we make the rallying cry for effective management of local, national and global economies to fight climate change. Many observers expect an agreement in Paris to be comprised of a number of essential components. Each of these components must reflect an ambition equal to the challenge before us in order to send a powerful signal to economic actors around the globe. To achieve that, agreements at the 21st Conference of the Parties must include:

1. Binding language that should reinforce our collective ambition and provide a clear pathway to zero net emissions before 2100.

2. Individual country contributions with policy packages that should comprehensively address how to use all available fiscal and macroeconomic policy levers to get prices right, increase efficiency, and incentivize de-carbonization, as well as address resilience.

3. A financial package that recognizes that public development funds and climate finance should be used to catalyze innovative financing for adaptation and mitigation. Financial flows cannot reach the levels we need in the necessary timeframe without some form of networked carbon market based on the market mechanisms, taxes and enabling environments we are beginning to see introduced around the world.

4. And finally, working coalitions of private enterprises, countries, cities and civil society organizations moving forward where their interests are aligned.

Unlike treaties of the past, the Paris agreement needs to speak as loudly of economic transformation as it does of pollution or carbon emissions targets.

Effective management of the economy

So let me now say a few words about what we consider effective management of the economy with respect to climate change, and what we hope to see in INDCs – the "Intended Nationally Determined Contributions" that will set out each country's commitment for Paris and beyond.

We understand that many of our clients still face huge development challenges, and that many countries will reach their own peak emissions at different moments. Managing their economies to ensure that they can, for example, decarbonize their energy sectors over time, while having the energy they need for development, constitutes a challenge no developed country had to face as it was industrializing. Nevertheless, every country, no matter its stage of development, can strive to effectively manage its economy, and to decarbonize while also ending poverty and boosting shared prosperity. At a minimum, this means: strong policy signals that make clear the long term goals; carbon pricing; appropriate energy prices linked to efficiency standards; and removing subsidies that are harmful, including fossil fuel subsidies.

All countries should commit to put a price on carbon. It's a necessary, if not sufficient, step in any journey to zero net emissions. Effective prices on carbon can be discovered by taxes, market mechanisms or regulation. Whichever option a country, region or city chooses, a carbon price makes the pollution we don't want more expensive, and incentivizes efficiency and clean production.

Carbon pricing can raise revenues and these added resources can be used to generate more economic and social benefits. We can do this by, for example: moving from "taxing the goods" to "taxing the bads"; by using carbon tax revenue to reduce labor and investment

taxes, and to encourage job creation and economic development; or by supporting innovation and the development of green technologies through research and development subsidies.

The example of British Columbia is one of the most powerful. Its carbon price mechanism is neutral to the tax payer – it's not an increase in tax. The government promised households it would not impact their overall household tax rate. As the carbon tax was introduced, taxes on labor were reduced. Introduced at the height of the financial crisis in 2008, the carbon tax has risen from 10 Canadian dollars per ton to 30 Canadian dollars per ton today. During this period, the tax has reduced emissions and provided a net benefit to tax payers of 300 million Canadian dollars in personal and business tax cuts. It's worth noting that British Columbia's GDP has outperformed the rest of Canada's after introduction of the tax.

But carbon pricing alone is not enough. Other instruments need to be mobilized in parallel to redirect investments toward clean technologies and sectors.

Stepping up drivers of energy efficiency is an obvious win-win that can deliver savings for consumers and benefits in better air quality and lower emissions. Strengthened performance standards can help achieve efficiency gains in appliances, buildings, transport and industry. Such energy efficiency measures have the potential to reduce global greenhouse gas emissions by 1.5 gigatons by 2020.

In addition, specific efforts are needed to scale up renewable energy and develop carbon capture and sequestration technology, at a pace that will allow us to reach carbon neutrality by the end of the century. Investment in infrastructure will also be required. The electricity grids in many countries can, with upgrades, achieve much higher rates of efficiency – a huge opportunity for example in India –and allow renewables to be grid connected. Just this year, once the appropriate regulatory reform and grid development had taken place, the private sector arm of the World Bank Group, the International Finance Corporation, financed the first grid connected solar power plant in the Philippines. Public transit investments are also urgently needed in the rapidly growing cities of the developing world to avoid locking them into inefficient and polluting patterns.

Removing harmful fossil fuel subsidies is overdue. Today there are $500 billion dollars in direct harmful fossil fuel subsidies that primarily benefit the better off while doing nothing to help the poor and the environment. These funds can be better used to invest in resilience, health or education, or to subsidize technologies that can reduce emissions.

Removing subsidies has sat in the “too politically difficult” basket by leaders’ desks for too long. Countries such as Brazil, the Dominican Republic, Indonesia, and Mexico are showing that phasing out fossil fuel subsidies can be successful, and benefit the poor, when they are combined with improved safety nets and targeted cash transfers. A policy package that includes these components would give credibility to the transition, and provide the confidence and predictability that all investors and consumers need to change their choices and behaviors. Including these in INDCs—the individual country contributions—would demonstrate the commitment of every country to play its part to move toward a global carbon-free economy. It would also lay the pathway for essential work before the INDCs come into effect in 2020.

Effective management of the economy also means finding ways to invest more in resilience. The contributions of countries, then, must also address adaptation. Governments must implement the policies needed to strengthen resilience and ensure that development takes into account climate risks. A central government’s support and encouragement for cities to transform themselves into being cleaner and more livable, can bring huge rewards. Rapidly growing cities can implement urban planning that drives new development toward safe locations and, in their transport planning, improve resilience and achieve competitiveness at the same time. And finally, we would hope that INDCs will lay out clear policy frameworks for how forestry and agriculture can achieve the needs of nutrition and food security, support of rural livelihoods, and reduced emissions from land use.

If countries can offer such comprehensive contributions, the signal to economic actors will be strong. But for these efforts to coalesce and bring us to zero net emissions, we will have to find sufficient financing. It is the critical component of a Paris agreement.

There is compelling evidence suggesting that if countries use their regulatory capacity to get prices right, incentivize clean investment, and use the full range of policy instruments available to them, they will experience greater investment flows.

Morocco, for example, adopted aggressive targets for renewable energy and improvements in energy efficiency, lowered fossil fuel subsidies, and created an attractive legal framework. As a result, the country is becoming known as a solar power innovation hub: It saw its renewable energy investment grow from $297 million dollars in 2012 to $1.8 billion dollars in 2013. Other emerging markets, such as Chile and South Africa, are following policy-driven strategies with similar results.

The strong demand from investors for appropriately-structured green, climate-friendly investments, is reflected in the speed at which investors have responded to the growing green bond market. About $35 billion dollars in green bonds have been issued so far this year, and a robust, liquid, green credit market is taking shape.

But green bonds will not be the answer for the most vulnerable, especially those in the least developed and fragile and conflict-affected states. Here, public development funds and climate finance will always play a critical role. In the future, these funds will have to be ever more catalytic to serve the many needs that exist.

Development finance has to mainstream adaptation to ensure effectiveness. What we know now is that there is no development outside the context of climate change. Investing in terracing on the hill slopes of Saint Lucia will ensure success of investments in agricultural productivity as farmers are equipped to adapt to more intense rainfall. Ensuring schools are built to code in Nepal means that investments in educational attainment will be protected as school infrastructure is made more resilient to storms. Investing in mangrove restoration off the coast of Vietnam may prove cheaper in protecting the coast line than concrete and reinforced steel, and may boost earnings from richer fishing grounds. Each of these projects is a development project. Each would count as a climate investment. This is where long-term development finance and climate finance come together.

The World Bank Group has taken major steps this year by introducing climate and disaster risk screening in our lending in IDA countries (IDA is the International Development Association, our fund for the poorest countries). We have also developed multi-sectoral adaptation plans, to begin with, in 25 IDA countries. If they are found to be helpful, we will expand the initiative. It is our hope that countries could use such adaptation planning, done under IDA, to effectively develop their pipelines for the Green Climate Fund.

Climate Finance will flow through different channels

We know that climate finance will flow through many channels. More than six years ago we created the Climate Investment Funds, or CIF, to pioneer investments in transformative projects for climate change, and learn lessons in how to optimize climate outcomes. From grid connected wind power in Mexico; to the first at scale concentrated solar power plants in Morocco; to resilience plans in Bolivia and Haiti; to indigenous solar entrepreneurs in Thailand, the projects and programs of the CIF show how public climate funds can be leveraged and used by countries and the private sector. The CIF plan is to leverage its $8.3 billion dollars in assets to generate another $57 billion dollars in funding for country-led

investments that reduce net emissions and promote resilient development. Just last week, the contributors and other board members decided to extend the CIF's operations by another two years, and gave further funding to ensure that we can keep meeting countries' needs as other funds are established.

We welcome the UN's Green Climate Fund, or GCF, initial pledging of $9.9 billion dollars. Its impact will be greatest if, like the Climate Investment Funds, it uses this capital to catalyze new investment in emission reduction and resilience. We look forward to leveraging GCF funds with our own to maximize impact.

We need to invest in resilience now

A strong Paris agreement will send immediate signals, even though its binding component will only come into force in 2020. This means that the other components must address the critical and pressing needs to increase substantially our investments in resilience now.

The economics of resilience are compelling. For every dollar invested in resilience, we can save $4 dollars in the cost of relief. For every dollar invested in early warning, we can save up to $30 dollars in reconstruction. The costs of inaction are rising. Economic losses from natural hazards have risen from $50 billion dollars each year in the 1980s, to just under $200 billion dollars a year in the last decade. Along with economic losses, insured losses from weather events have also increased significantly. SwissRe estimates that over the past 10 years, insured losses from weather related events are growing as a proportion of global GDP. The gap between overall losses and insured losses has been widening too. Again according to SwissRe, fully 75 percent of catastrophe-related losses worldwide are still uninsured.

At the World Bank Group we will use our track record for financial innovation to look for ways to raise a one-time injection of funds, and strengthen insurance coverage to build resilience immediately, and not wait until the next decade.

Just as we cannot wait to step up action to build resilience, we should also not wait to act on other fronts.

In recent years we have witnessed a new phenomenon, what some have been calling "working coalitions." Frustrated by the pace of negotiations and the difficulty of finding consensus among all 193 members of the UN, coalitions of stakeholders have pressed forward. On issue after issue, governments, companies, the scientific community and civil society organizations, have found that their interests in working together override the

difficulties in forging binding agreements. In fact, these coalitions have paved the way for wider agreement, and have picked up the pace of data, evidence building and action.

This was what led forest nations and other stakeholders to move forward around REDD, the effort to reduce emissions from deforestation. This willingness to work in partnership has also driven the effort to remove short-lived climate pollutants from the atmosphere, the Sustainable Energy for All initiative, and the development in Africa of climate-smart agriculture that keeps emissions low, creates jobs in rural communities, and feeds the world's growing population. The Paris agreement, will, I hope, recognize the importance of these coalitions in driving action forward. For us at the World Bank Group, partnership in such coalitions has been fundamental in our exploration of new forms of support to our clients.

What does this mean for the World Bank Group?

Since I joined the World Bank Group two and a half years ago, in addition to evaluating all projects and every country plan financed through IDA for climate and disaster risk, we've begun to measure the greenhouse gas emissions of projects in key sectors, and set an internal price on carbon as guidance for project designers. We're discussing the discount rate we use that will determine how we measure economic benefits over the long term, and we've begun work on a resilience indicator.

We tally our use of climate finance together with other multilateral development banks, and we have, as a group of banks, developed a common way to measure mitigation achieved in our financing. We are about to agree on a common measurement for adaptation in our projects. We hope that, in the near future, all the multilateral development banks and the bilateral financial institutions gathered in the International Development Finance Club will align themselves around common accounting.

All of these measures make up a robust toolkit for understanding the carbon exposure in our portfolio – our carbon footprint – and can give us important management information for project choice and design. This toolkit will also help the international community know what mitigation and adaptation benefits come from channeling climate finance through us, and what benefits we achieve on our own accord.

In the past year, we've changed the way we conduct our country partnership frameworks and our country diagnostics. These will increasingly place a climate lens on our work in

support of our clients, and can be a way to support countries in implementing their defined contributions to climate change.

We need to challenge ourselves so that every regional and country strategy, and every sector strategy, across the World Bank Group, is guided by our belief that our clients must succeed at reaching zero net emissions.

This will require a continuing shift in direction of our energy portfolio to support energy access for all, increased investment in renewables, and scaled up support for energy efficiency. It will require continued support for clean transport, more livable cities, and the development of the green building market. It means shifting our agricultural portfolio towards climate smart agriculture, ramping up support for globally networked carbon markets, and further financial innovation to crowd in investment for low emissions development.

At this critical juncture, in Lima and in the year between Lima and Paris, I intend to challenge the World Bank Group and other development financial institutions to become long-term partners of choice in this decarbonizing world. I offer our spring and annual meetings as venues to help increase our ambition with finance ministers and other economic actors at the table. We will support German leadership of the G7 and Turkish leadership of the G20 to ensure that these fora support a Paris agreement that will send the strong signal we need.

Today I am sending a signal of my own – as the head of the World Bank Group: I will drive our institution and all its capabilities – financial, technical and human – to support this development transition that we must support together, toward the goal of preserving our planet for all future generations. Thank you very much.