Statement by

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Clean Energy and Development: Towards an Investment Framework

1. This Constituency commends the World Bank for taking the lead in one of the most critical issues of our time. We strongly support the idea of an investment framework aiming at promoting clean energy sources and uses. Climate change is rapidly becoming a major issue in the development agenda, with material losses linked to climatic anomalies increasing by a six-fold factor since 1970. The UN University in Bonn assesses that from 2010 onwards, approximately 50 million people will be displaced by natural disasters. As climate change is already inevitable, mitigation and adaptation steps to address it are equally critical and should be tackled by the proposed framework.

2. Long before the G-8 Communiqué on climate change, clean energy and sustainable development, the countries of this Constituency have held the view that these three issues are closely intertwined. However, tightly linked these issues may be, they represent different angles of a challenge that implies costs for all those affected by events such as changing patterns of temperature and humidity over seasons; varying microclimates along geographic regions; increased occurrence of floods, landslides and forest fires; reduced biomass production; agriculture productivity and fish catch; spreading vector borne diseases; poorer air quality; and a reduction in the reliability of hydropower. Curbing current and potential emissions will be costly. Worse yet, the incremental costs for developing countries to move strongly towards a lower carbon economy will conflict with a perception of unfairness if historical emissions are considered. International cooperation will be key to resolving this conflict.

3. The countries of this Constituency have an impressive array of successful experiences targeted to reduced emissions by means of using clean energy. For example, approximately 44% of Brazil’s primary energy supply comes from renewable sources. While hydroelectricity represents 85% of Brazil’s power generation, the country has developed only 41% of its hydropower potential. Ethanol’s participation in the matrix increased from 6.8% in 1978 to 13.5% in 2004 and is projected to reach 14.3% in 2010.

4. The challenge for international cooperation in coping with climate change is how to set up a collective action that is surrounded by uncertainty and permeated by other externalities, market imperfections, and weak representation of those most affected by the problem - the future generations. Such a complex inter-temporal international collective action has to deal with uncertainty under the assumption that climate change is global in both its origins and its effects. Even though rich countries have been the source of more than 70% of the emissions over the past 50 years, developing countries will account for more than 70% of the forecasted growth in emissions in the next 20 years. In this regard, clean energy attained through efficiency gains on both the supply and the demand sides would contribute to sustainable growth and development. Such gains can only be obtained if developed countries can take the lead in the transfer of cleaner, low-emission and cost-effective technologies to developing countries by means of concrete and innovative mechanisms. An initiative of this nature implies that issues relating to intellectual property rights and expansion of collaborative research will have to be
addressed. Also, it means that South-South cooperation schemes are to be improved and expanded.

5. With respect to biofuels, South-South cooperation is not an abstract concept. Brazil is the world’s largest producer and consumer of ethanol from sugar-cane as a transportation fuel. Production has increased from 10.5 billion liters in 2001 to 15.4 billion liters in 2005. Brazil is now the lowest-cost sugar and ethanol producer in the world. Nowadays, ethanol accounts for more than 40% of fuel consumption for transportation in Brazil, with estimated savings of US$ 61 billion between 1975 and 2004 resulting from its ethanol program which substituted about 230 billion liters of gasoline. Currently, the sugarcane planted area represents 0.6% of the Brazilian territory, approximately 250 million hectares of fertile land with favorable pluviometric regime, adequate inclination, satisfactory logistics, and low environmental impact in all States (except in the Amazon region). Areas available for expansion equal 12% of the territory. Counting on 320 sugar mills and 100 distributors of ethanol to more than 30 thousand fuel stations, Brazil exported 2.58 billion liters of ethanol in 2005 (revenues of US$ 584 million).

6. The proposed investment framework offers the World Bank an opportunity to renew and deepen its ties with clients. The current decline in Bank’s operations with MICs is partially explained by the institution’s difficulty to both identify and meet clients’ needs. Frequent bilateral requests from countries willing to share technology of production and consumption of ethanol for urban transport clearly represent a need to be fulfilled. These requests suggest that the World Bank could constitute a platform to foster cooperation schemes and to facilitate the South-South energy investments, by providing expertise, financing and risk mitigation instruments.

7. This Constituency stresses once more that the United Nations Framework Convention on Climate Change (UNFCCC) provides the adequate framework to regulate issues pertaining to climate change. We are firmly convinced that the principle of common but differentiated responsibilities should be maintained as it enables developing countries to contribute to global emission reduction without undermining their overriding priorities of economic and social development. Within the UNFCC framework, we envisage a need to establish a long term, stable and predictable regulatory system on global clean energy to create an enabling environment and provide incentives for private and public sector investments. In our view, the Kyoto Protocol was insufficient both in coverage and in time span. Where coverage is concerned, the Kyoto Protocol encompassed only those countries projected to emit roughly half of the world’s greenhouse-gas emissions by mid-century. Such a limited coverage does not suffice to provide a long-run safeguard against the dangers of global warming, given that current carbon emissions are on an unsustainable path. With respect to time span, we believe that the period ending in 2012 will not be long enough to clearly demonstrate the benefits to be derived from the agreement.

8. In the spirit of the UNFCCC, we believe that the world’s industrial core should create incentives for the developing world to industrialize along an environmentally-
friendly, C02- and CH4-light path. Slow growth of greenhouse-gas emissions in rapidly-growing economies must be accompanied by credible promises to deliver massive amounts of assistance to meet the challenging tasks of industrialization, education, and urbanization that developing countries face. Support is also needed via technology transfer at zero or negligible costs. The developing world needs incentives for its energy industries to undertake the investments in new technologies that will move the world by mid-century to an economic structure that is light on carbon emissions and intensive on carbon sequestration.

9. At this early stage of the discussion on an investment framework, this Constituency deems that it is wise not to discard any clean energy sources, nor to focus on readily available technologies. The wide range of clean energy options notwithstanding, from sources as diverse as new thermal power plants, natural gas, solar, wind, hydro, biomass, geothermal sources, and nuclear fission, we note that they are not at the same level where effectiveness is concerned. If the proposed investment framework is to select technologies that seek to enhance access to clean energy, improve energy security and promote environmental protection at the local, regional and global level, then it will necessarily have to adopt economic, financial, environmental, and social criteria to help establish a hierarchy amongst sources of clean energy currently available. In this case, there is enough evidence to support the notion that replacement of fossil fuels by biofuels, along with conservation techniques, represents the most effective and cost-efficient way to mitigate greenhouse effect. Despite the superiority of this option, we see a need to pursue a portfolio approach for policy, technology deployment and R&D involving natural gas, coal (with capture and storage), biofuels, renewables (solar, wind, hydroelectrical power with lower costs and higher availability), nuclear energy (with safe waste management), hydrogen and fuel cells (with lower costs and technical advances).

10. In addition to clean energy sources, we highlight that end-use efficient technologies are equally critical to both mitigation and adaptation strategies. For developing countries, end-use energy efficiency improvements is an important component that does not really impact public finances. For developed countries, the benefit would naturally be much larger because of higher per capita energy consumption. In our Constituency, we have the concrete example of flex-fuel vehicles in Brazil. Sales of those vehicles have increased from 3% of total sales in 2003 to 50% in mid-2005. In January 2006 it reached 72.8% of total sales in January 2006. Since 2003, Brazil has manufactured 31 new models of flex-fuel vehicles, by seven automakers, which run with any mixture of gasoline and ethanol, with no necessary action by car drivers.

11. The countries in our Constituency have common issues that hopefully will be addressed by the proposed investment framework. A strategy for forested areas which balances developmental objectives with forest maintenance and regeneration is a concern in many of our countries, along with exploitation of hydro potential. In addition to energy efficiency savings, we believe that industrial scale bagasse and ethanol production and research into biodiesel may bear important results. The definition with respect to post-2012 climate management regime is of the essence, since carbon trading has already become an important financial tool to help promote clean energy. Also, the development
of financial products to help stimulate cleaner technologies and mitigate risks (debt finance, credit guarantees, disaster insurance) is critical. Last but not least, our countries need improvements in their capacity to deal with climate risks, including extreme weather events.

12. We underline that the proposed financing instruments (Clean Energy Financing Vehicle, Power Rehabilitation Financing Facility, Project Development Fund, and Venture Capital Funds for Technology Adoption) should mobilize new and additional financing from developed countries, as developing countries are not expected to bear the additional costs of a low-carbon economy. Also, they should reflect the requirements of global public goods, and thus should not be subject to IFI conditionality.

13. The threats associated with climate change cast a new light on hydropower. This Constituency advocates hydropower, subject to reasonable national environmental and social standards, as a renewable clean energy source as agreed during the 2002 World Summit on Sustainable Development. We point out that electricity corresponds to 73% of US$ 8.1 trillion total capital investment estimated by the International Energy Agency from 2003 to 2030 for the developing and transition economies to meet their energy needs. Despite the increasing importance of hydropower, we remain skeptical about the possibility of the private sector financing the huge gap between installed capacity and projected capacity. We stress the disappointing performance of the private sector in financing the infrastructure gap, as recorded in a number of World Bank’s documents.

14. Furthermore, this Constituency considers that more attention should be paid to reforestation. In the Montreal Conference, Brazil submitted a proposal on forest conservation to mitigate global warming. We recall that approximately 75% of new emissions derive from deforestation. This is possibly the most relevant cause of global warming nowadays as it rivals those from CO emissions in North America. We urge that the Brazilian proposal be taken into account in the design of the clean energy investment framework.

15. Finally, we concur with the proposed two-track strategy proposed by the document, one encompassing activities to be completed by September 2006 (including a more detailed proposal for the financing facilities) and the other including activities to be developed over the next two years (with particular attention to new knowledge on technology options and proposed programs of action for selected countries).

**Global Monitoring Report 2006: Strengthening Mutual Accountability – Aid, Trade and Governance**

16. This Constituency acknowledges with satisfaction that this year’s document incorporates our comments on previous editions about the need for stressing the intertwined responsibilities of developed countries, developing countries and international financial institutions. In our view, the Global Monitoring Report must reflect the tripartite agreement established in Monterrey by clearly indicating progress in
accomplishing the responsibilities bestowed upon the three different sets of actors. However, this tripartite responsibility is not fully reflected in the sections dedicated to governance. It would have been better if it showed the responsibilities of the three main actors with respect to governance.

17. We stress that the usefulness of the document lies in its ability to help policymakers design strategies aiming at reduced poverty. In this sense, we recall the seminal document “Achieving the MDGs and Related Outcomes: A Framework for Monitoring Policies and Actions”, approved by the Bank’s Board on March 11, 2003, which reads “the Development Committee would contribute to the implementation agenda through regular monitoring of the policies, actions, and outcomes needed to achieve the goals, and asked the Bank and the Fund to make proposals for taking their intention forward. ... a unifying thread across meetings”. From our perspective, the GMR must have two key features, namely: (1) to provide information and data to assess countries’ progress toward achieving the MDGs; and (2) to facilitate continuity of this assessment. In other words, coherence and continuity are imperative. Coherence and continuity will only be kept if a strong link is established between the main theme and the monitoring action. This is why we believe that both a careful selection of themes and a continuous review of past reports are essential.

18. This Constituency fully supports the notion that governance is a critical dimension of any development policy. However, we caution policymakers not to take lack of governance as a synonym for corruption. Corruption hinders development not only because it diverts resources but also because it signals flaws of governance. Whereas corruption must be fought against with all means, we indicate that focus on corruption excessively narrows the discussion on governance. It overlooks a number of other critical aspects such as mismanagement due to poor planning, insufficient training, absence of equipment and premises. We also underline that corruption is a two-way road, since the availability of avenues for providing secure and financial investment of the proceeds of corruption in various global financial institutions, banks and tax havens provide an additional incentive to divert public resources. We point out that current ODA inflows to developing countries are a mere fraction of resource outflows to developed countries due to commercial corruption.

19. Fighting corruption and improving governance is a continuing process that depends on a number of conditions, including external support. In this sense, it would be counterproductive to hold up all development efforts until the fight on corruption has been won. The fight against corruption does not preclude all involved parties from tackling real issues such as the quality of aid, debt relief, trade and infrastructure.

20. This Constituency highlights that the elaboration of aspects linked to governance is at a very early stage and hence robust conclusions cannot be drawn from data gathered by means of a still evolving methodology. Also, historic series are not yet extensive enough. Against this backdrop, we caution that no clear causality can be firmly established between development and governance and therefore more work is needed for
developing specifically monitorable and actionable disaggregated governance indicators to avoid subjective judgment on governance at an aggregate level.

21. Finally, as we acknowledge that governance permeates all dimensions of Bank operations, this Constituency advises development agents not to attribute to lack of governance, each and every problem related to Bank operations. Since a number of other reasons help explain problems faced by Bank operations – such as insufficient volume, absence of country ownership, unpredictability and instability of flows, poor designing of projects – a comprehensive approach cannot be replaced by any conceptual panacea.