GREEN BONDS & CAPITAL MARKETS

Green Infrastructure Investment Coalition

Investors + Green Infra Developers + Public Sector + Development Banks

Multi-trillion $ investor coalition backs green investment platform

At the UN Climate Conference in 2014, investors representing $43 trillion signed statements about the importance of acting on climate change. They also said they stand ready to invest in climate solutions, with insurers pledging to multiply by 10 their climate related investments by 2020[1].

In Paris at COP21 investors representing $11.2 trillion undertook to work to grow a vibrant green bonds market[2].

Clearly, capital is available to invest.

From the institutional investor perspective, what's missing are available investible propositions suitable to their needs.

Many governments are well advanced in developing domestic green investment plans. Now they need investment.

Objectives

The aim of the Coalition is to bring together investors, governments, green infra developers and development banks to help increase the flow of capital to green infrastructure investments around the world.

Participants want to:

- Better understand the forward pipeline of green infrastructure investments.
- Examine and address barriers to capital flows and propose solutions.
- Shape the capital market instruments needed to ensure capital flows.

The Coalition will also support investors to review asset allocation strategies to make sure they will be able to take advantage of the huge deal flow on the horizon.

The key activity of the Coalition will be to hold roundtables to find out about and discuss green investment plans. Participants need 5 year deal flow pipelines, and investment opportunities of $100 million a time.

The Coalition will look for ways to bridge risk gaps to ensure investment opportunities are shaped to meet the needs of investors.

Coalition Organisers

The Climate Bonds Initiative is an investor focused NGO working to mobilize debt capital markets for green investments.

The Principles for Responsible Investment represent investors with assets under management of US$60 trillion.

The International Cooperative Mutual Insurers Federation represents insurers around the world with assets under management of US$9 trillion.

The UNEP Inquiry brings together regulators, central banks, governments and investors to examine how to align the financial system with sustainable development.

Long-Term Infrastructure Investors Association, made up of institutional investors and fund managers investingin infrastructure globally.

Global Coalition Members (see over page for Country Participants)

Legal & General Investment Management, an fund managers with assets of USD1.1tn.

AB, a global investment-manager with USD464bn under management.

The European Investment Bank, the EU's development bank.

Institutional Investor Group on Climate Change, a network of pension funds & asset managers in Europe, representing EUR13tn.

Ceres Investor Network on Climate Risk representing US investors with USD13tn AUM.

Investor Group on Climate Change Australasian investors association

Affirmative Investment Management, dedicated green and impact bond fund manager.

The Regions20 Coalition helping sub-national governments develop climate related projects.

Deutsche Bank one of the world's leading banks.

Climate Investor One a green infrastructure financing facility.

London Stock Exchange, a globally focused capital markets business.

The Inter-American Development Bank, financing development in Latin America.

IRENA, the International Renewal Energy Agency.

The City of London Green Finance Initiative, working with investors and regulators to grow green finance flows.

Meridiam, an infrastructure investment fund backed by development banks and institutional investors.

The Terrawatt Alliance, promoting solar investment globally.

World Business Council for Sustainable Development.

Green Investment Bank, a UK investment institution.

Arcor, a US solar developer.

MEP Werke, a German Solar power services company

EY, a global consulting firm.

Mercer, a global asset manager advisory firm.

Green Infrastructure Investment Coalition

India participants

FICCI is the largest business organisation in India, representing over 250,000 companies.

IDBI, a state-owned bank with a balance sheet of USD53bn.

India's Export Import Bank supports projects across Southern Asia and Africa.

National Institute of Public Finance & Policy, a leading think-tank for governments.

Yes Bank, one of India's largest private banks.

Axis Bank, another of India's largest private banks.

Indian Renewable Energy Development Agency.

Energy Efficiency Savings Ltd, an Indian government agency delivering financing solutions for energy efficiency.

Hero Renewable Energy, a wind energy developer.

IL&FS, a leading government-owned infrastructure developer.

SkyPower, a global solar developer planning to issue green project bonds in India.

National Stock Exchange of India.

Indian Railways, upgrading and extending its already vast network to carry even more of India's freight and passengers.

ICICI Bank, one of India's largest banks.

The **State of Andhra Pradesh**.

The Coalition will provide an ongoing platform for close interaction between governments, green infrastructure developers, development banks and the world's largest investors.

The core activity will be country roundtables held in various cities.

Roundtables are being planned for 2016 for India, Mexico, Brazil and China. Roundtables will be supported with:

1. Information

- Mapping DFI offerings around green investment.
- Directories of recent and available deals.
- Profiles of investment managers & intermediaries managing investments.

2. Climate Finance Aggregation Platform

In collaboration with UNDP and the Inter-American Development Bank, a project to support green aggregation efforts in emerging markets was announced in Paris at COP21.

The aim will be to tap low-cost capital for green lending to villages, local communities, home owners and small business.

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A Multi-Trillion Dollar Challenge

According to the *New Climate Economy*, the global economy will require about US$90 trillion in infrastructure investments by 2030.

Low-carbon and climate resilient infrastructure includes clean energy; low-carbon transport, such as railways, urban metros and electric vehicles; low-emission buildings, both new and retrofitted; and water infrastructure[3].

Despite the urgent need to build this infrastructure, investment needs are not being met. Funding for infrastructure globally is around US$5 trillion each year: only 7-13% of those projects are estimated to be low-carbon and designed to deal with the extra impacts of a changing climate[4].

The renewable energy industry alone will require $12.1 trillion of investment over the next quarter century, or about 75 percent more than current projections show for its growth[5].

Shifting infrastructure to being *low-carbon* and *climate-resilient* will require more investment upfront, but lower ongoing investment requirements.

The higher capital nature of low-carbon investments means that, in high interest rate emerging markets, the *cost* of capital has a significant impact on the economic viability of low-carbon projects[6]. Because of the vast scale of their growth plans, they are the very markets that most need to choose green.

The investment challenge of building green infrastructure cannot be met with public sector funds and bank finance alone.

Even in China, the government recognizes that public funds will only cover 10-15% of green investments required over the next years: they need to tap both international capital and domestic savings[7].

New sources of capital need to be tapped. Tapping bond markets will be an important strategy of raising lower cost capital.

Institutional investors, including pension funds and insurance companies, who have US$93 trillion of assets under management in OECD countries alone[8], have a role to play to provide the necessary capital[9].

Green bonds offer one way to leverage their capital for investment in assets in the real economy.

1. Insurance sector announcement at UN Climate Summit 2014. https://www.icmif.org/news/insurance-industry-double-its-climate-smart-investment-end-2015.
2. http://www.climatebonds.net/get-involved/investor-statement
3. The Global Commission on the Economy and Climate. (2015) *Seizing the Global Opportunity.* Available at http://2015.newclimateeconomy.report
4. In constant 2010 dollars The Global Commission on the Economy and Climate. (2014) *Better Growth, Better Climate: The New Climate Economy Report*. www.newclimateeconomy.report.
5. BloombergNewEnergyFnnace/Ceres report for 2016 Investor Summit of Climate Risk.
6. For example, reducing the cost of capital in India to the levels available in US or Europe could reduce project costs for renewable energy projects by as much as 32%. Source: Nelson, D. and G. Shrimali (2014). *Finance Mechanisms for Lowering the Cost of Renewable Energy in Rapidly Developing Countries.* Climate Policy Initiative
7. The People's Bank of China and UNEP Inquiry into the Design of a Sustainable Financial System (2015): *Establishing China's green financial system. Final Report of the Green Finance Task Force.* April 2015.
8. Data on assets under management in 2013. *Mapping channels to mobilize institutional investment in sustainable energy*. OECD (2015)
9. Canfin and Grandjean (2015): *Mobilizing climate finance: a roadmap to finance a low-carbon economy.* Final report of the French Presidential Commission on Innovative Climate Finance chaired by Pascal Canfin and Alain Grandjean.