GREEN BONDS & CAPITAL MARKETS

Green Infrastructure Investment Coalition

Investors + Public Sector + Development Banks

Multi-trillion dollar 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 specifically aiming to multiply by 10 their climate related investments by 2020[1].

In Paris at COP21 investors representing $11.2 trillion AUM undertook to work with the Climate Bonds Initiative 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 and development banks to help increase the flow of institutional investor 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.

Participation

Coalition members are investors, governments, development banks and infrastructure developers. Investment banks will participate as advisors and facilitators.

Activities

The primary activity of the Coalition will be to hold roundtables to find out about and discuss government green investment plans, including specific pipelines being developed by individual agencies such as State energy and rail companies. Participants need 3-5 year deal flow pipelines, and investment opportunities of $100 million a time.

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 institutional investors to examine how to align the financial system with sustainable development.

Coalition Members

The following organizations have confirmed participation:

Legal & General Investment Management is one of Europe's largest asset managers, with total assets of USD1.1tn.

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

The California State Teachers Retirement System

The European Investment Bank is the European Union's development bank.

Institutional Investor Group on Climate Change, a network of +120 pension funds & asset managers in Europe, representing EUR13tn.

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

IGCC Australasian investors association

California State Treasury green infrastructure initiative

Affirmative Investment Management dedicated green and impact bond fund manager.

Pax World Management is a US fund manager with an ESG focus.

The Regions20 Coalition helping sub-national governments develop low-carbon and climate resilient economic development projects.

London Stock Exchange is a globally focused market infrastructure and capital markets business.

Deutsche Bank one of the world's leading banks.

INDIA PROGRAM

(Coming soon: China, Brazil, Mexico, Europe)

FICCI is the largest business organisation in India, representing over 2,50,000 companies.

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

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

The National Institute of Public Finance & Policy is a leading Indian think-tank for governments.

Yes Bank, one of India's largest private banks

Sectors to be represented:

- Government agencies responsible for green infrastructure development
- National development banks and commercial banks working to deliver national policy objectives
- Companies developing infrastructure assets
- Institutional investors around the world.

Coalition activities

A key task for the Coalition will be to look for ways to bridge risk gaps to ensure investment opportunities are shaped to meet the needs of institutional investors.

Meetings will be held in a neutral location. Test fora were held in 2015 in Lima, at the IMF/World bank October meeting, and at the London Stock Exchange for prospective Chinese issuers of green bonds. Roundtables are now being planned for India, Mexico and China.

The intention is for the Coalition to provide an ongoing platform for close interaction between governments, development banks and the world's largest investors.

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.
- Review of infrastructure deals by governments to identify deal attributes and participating investors.

Help will be provided to countries to develop green investment plans needed to meet their Intended Nationally Determined Contributions (INDCs).

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 from bond markets for green lending to villages, local communities, home owners and small business.

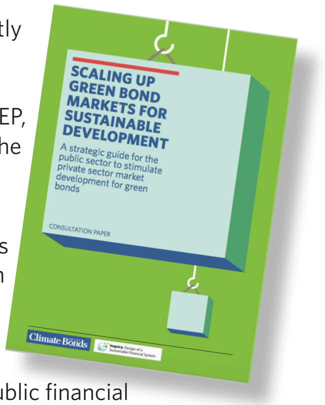
3. Green Bond Market Development

In some countries and regions Green Bond Market Development Committees are being set up to bring together investors, development banks, government finance officials, commercial banks and potential issuers. They serve as local education platforms, vehicles to promote best practice and forums to provide policy advice to governments.

Committees have been set-up, or are in the process of being set up, in India, Mexico, Canada, California and Brazil. The Committees will be represented in the Coalition, and serve as local venues for Coalition work.

4. Launch of Guide for Governments

A *Guide for Scaling-up Green Bond Markets for Sustainable Development* was released at the Coalition's launch in Paris at COP21.



The Guide is jointly published by the Climate Bonds Initiative and UNEP, with input from the OECD.

The Guide offers a range of options for building green bond markets, which will help policymakers, regulators and public financial institutions meet their investment targets for climate action and environmental protection.

The Guide comes with a special annexure on *Key Building Blocks of Bond Market Development*, prepared by the World Bank.

For more information:

Governments & companies: Sean Kidney
sean@climatebonds.net

Development Banks: Darius Nassiry
darius.nassiry@climatebonds.net

Investors: Manuel Adamini
manuel.adamini@climatebonds.net

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.