Climate finance from an institutional investor's angle

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Allianz

What drives institutional investments into infrastructure?

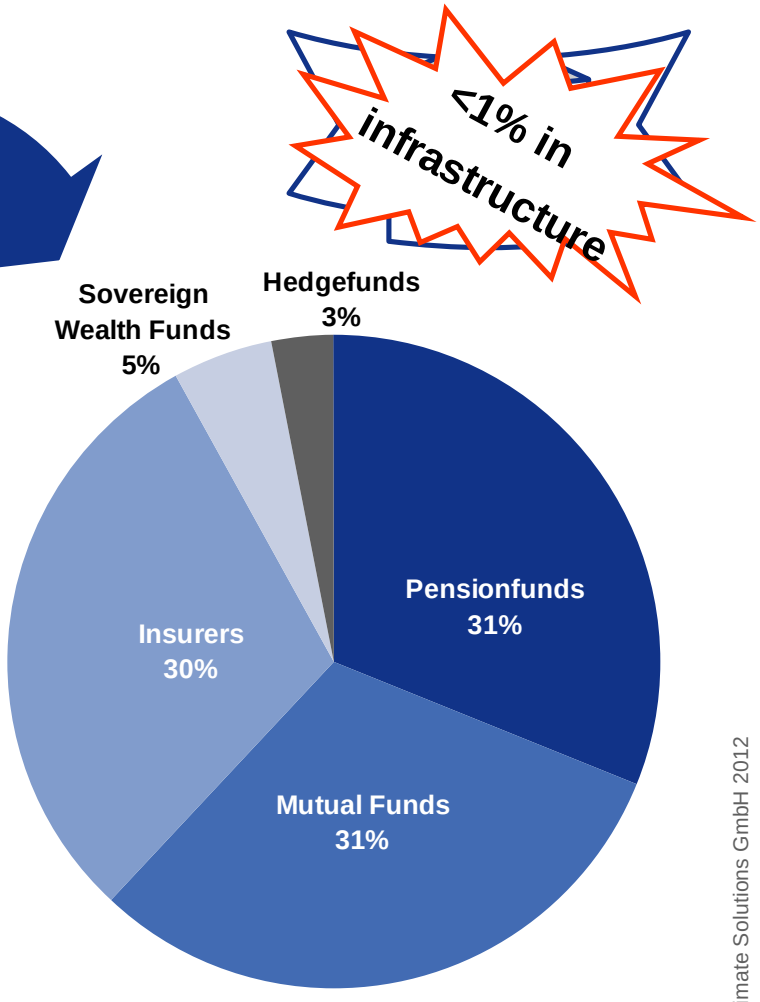
Stable cash-flows / returns (94%)

Cash flows predictable over long-term (88%)

Diversification of portfolio (87%)

Politically stable environment (86%)

Value preservation of the installation (79%)



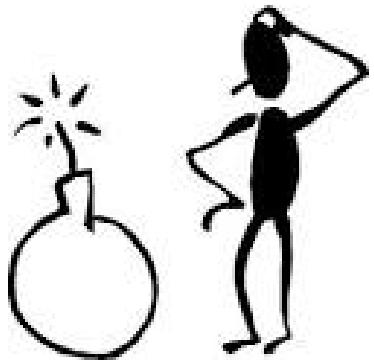
Source: 'Immobilien und Infrastruktur bei institutionellen Investoren' , Study by the Research Center of Steinbeis Hochschule, 2012

What hinders institutional investments in clean energy?

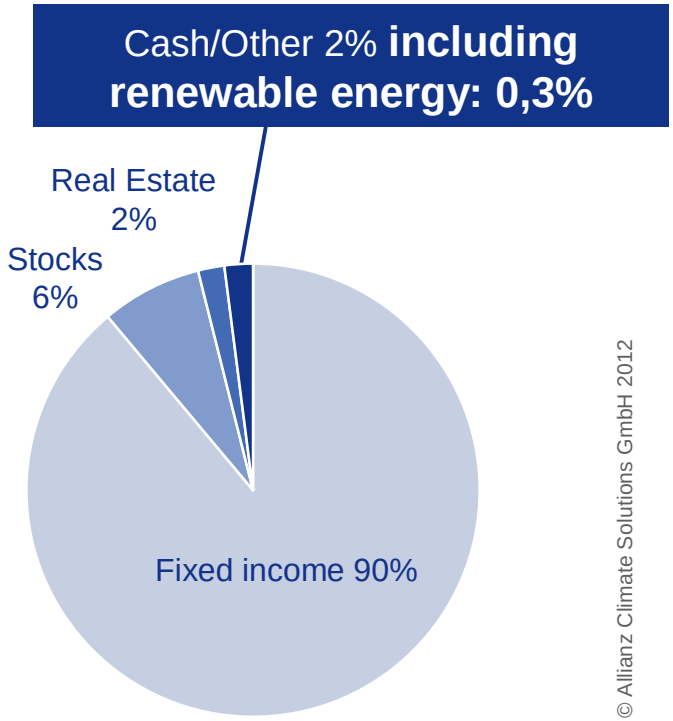
Barriers to institutional investment in clean energy

1 Problems with Infrastructure Investments	▪ Lack of project pipeline ▪ Lack of investor understanding ▪ Regulatory barriers
2 Problems with clean energy investments	▪ Risk/return ▪ Lack of carbon pricing and fossil fuel subsidies ▪ Unpredictable and fragmented policy support ▪ Special species of risks
3 Lack of suitable investment Vehicles	▪ Nascent and illiquid green bond markets ▪ Challenges with securitisation ▪ Credit issues

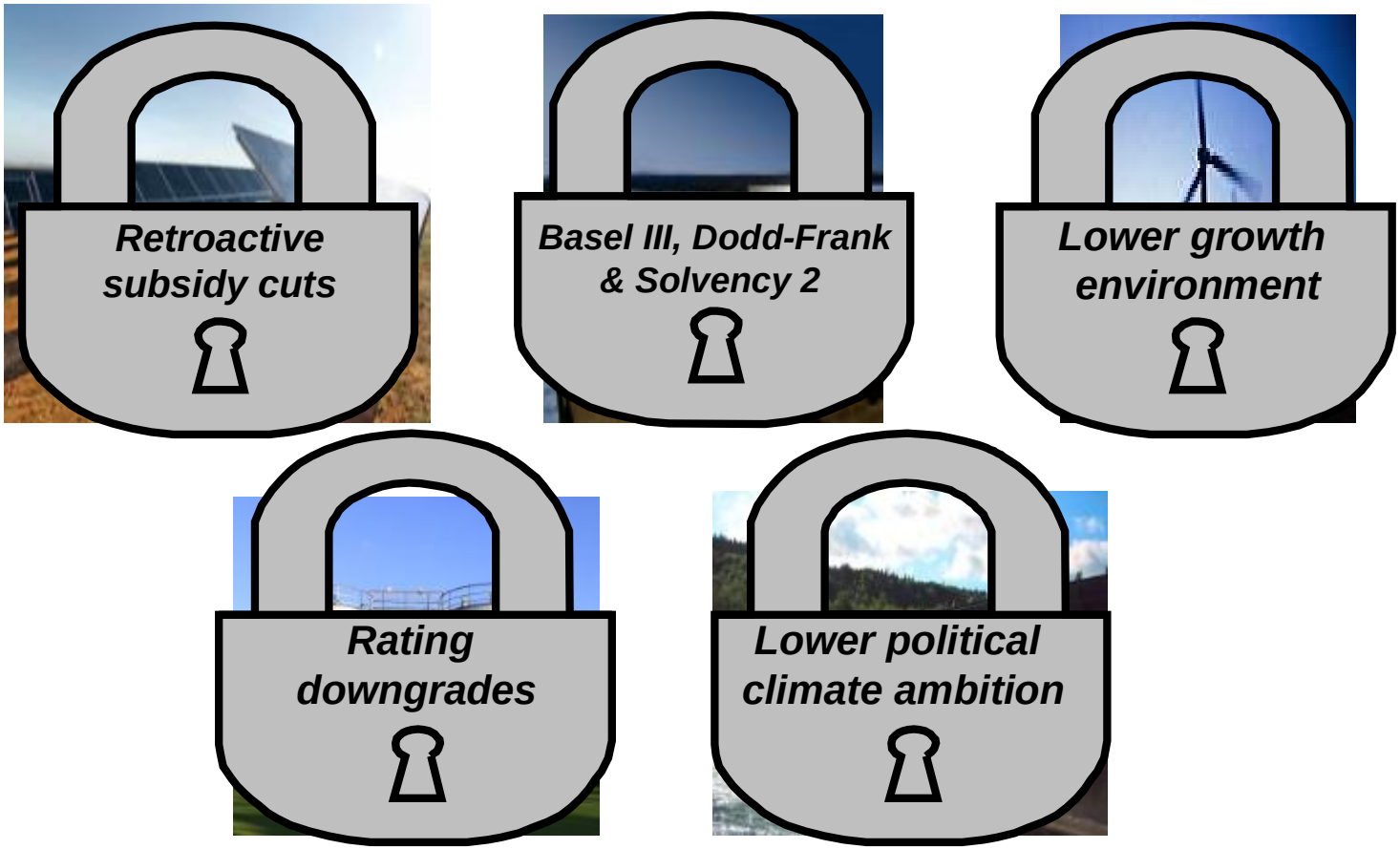
Source: OECD, Role of Insititutional Investors in Financing Clean Energy, 2012



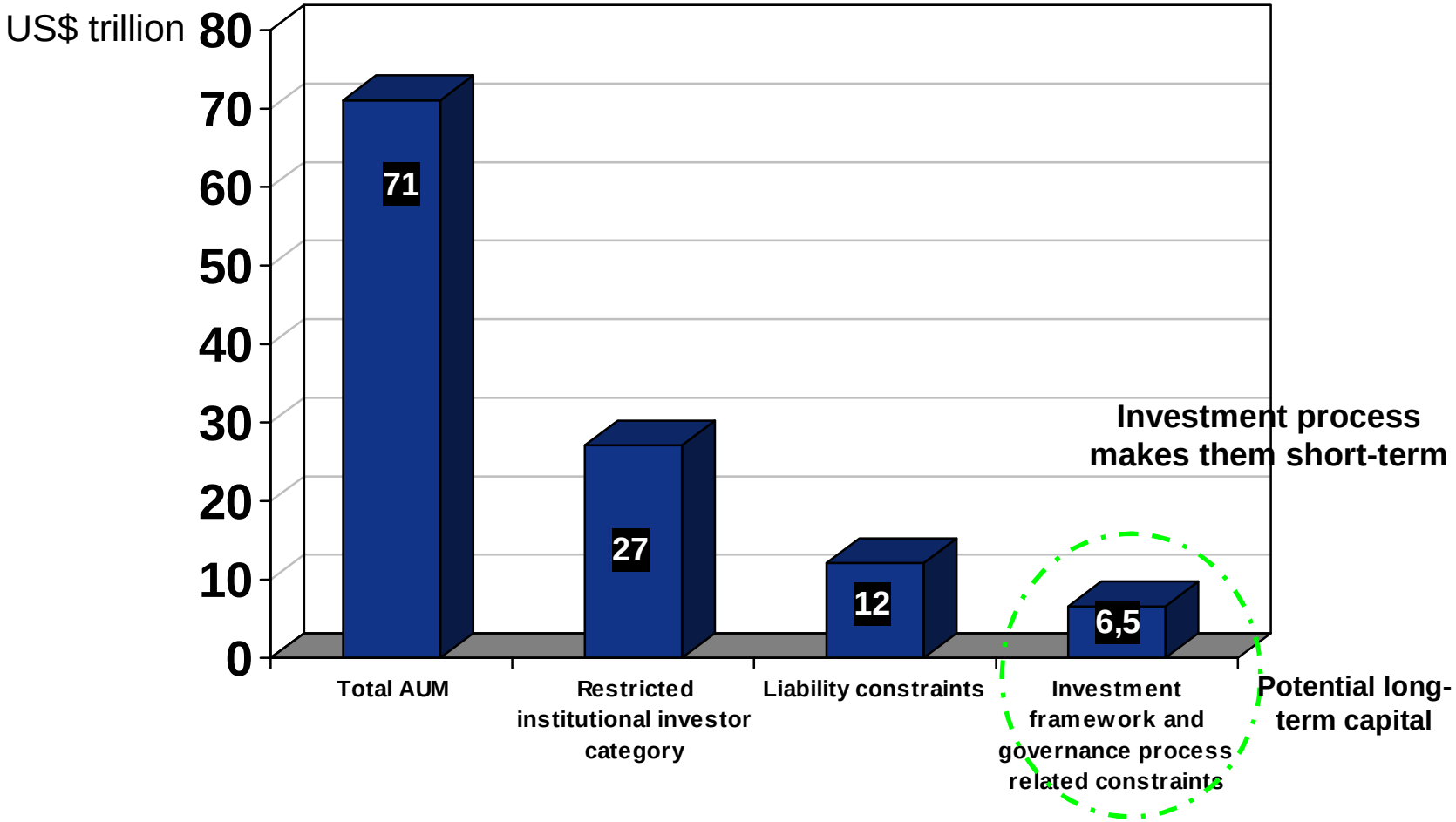
Investment Portfolio of Allianz Group
(EUR 461 billion)



Post-financial crisis (regulatory) environment could add barriers…

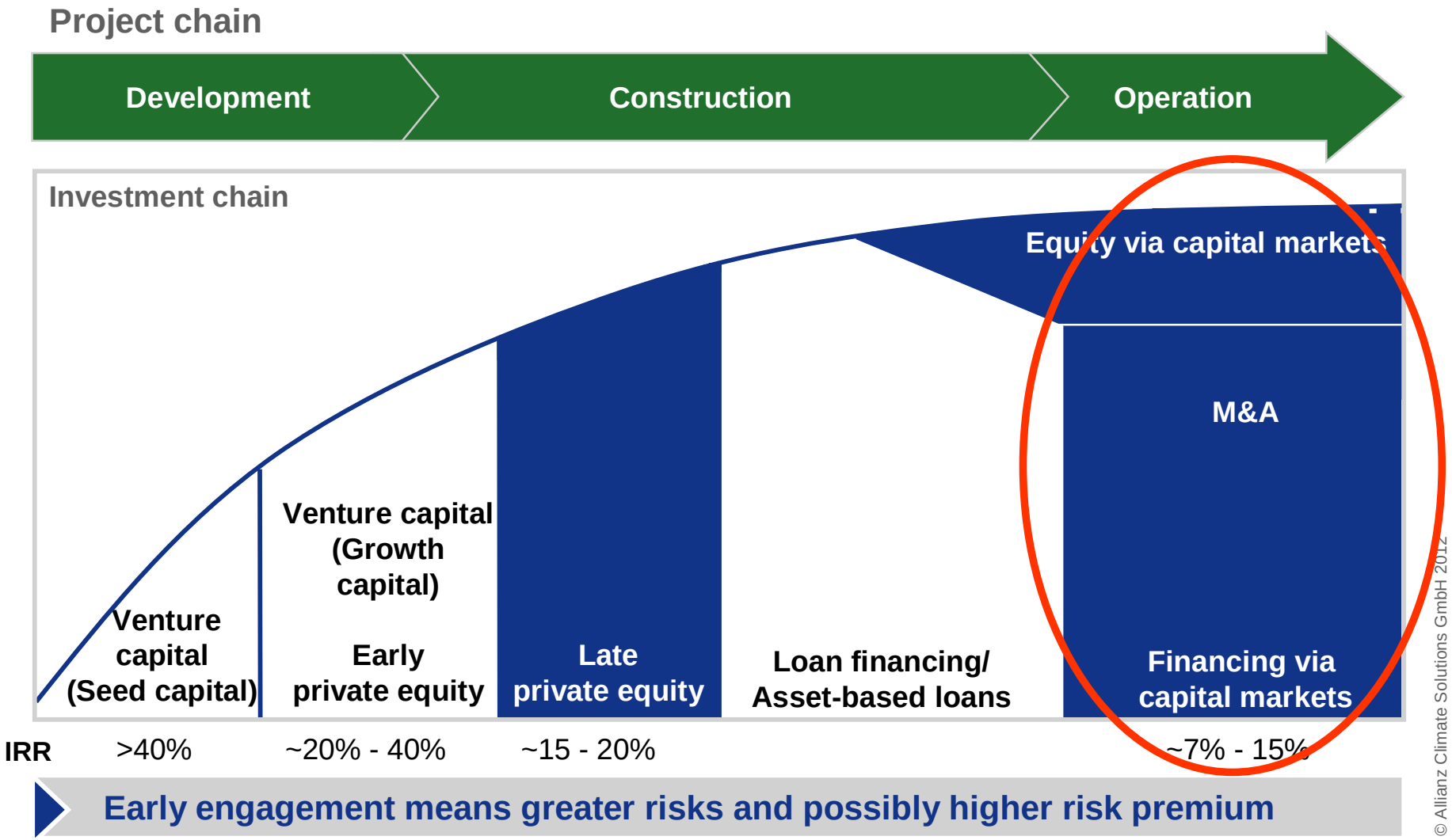


Reducing availability of institutional capital…



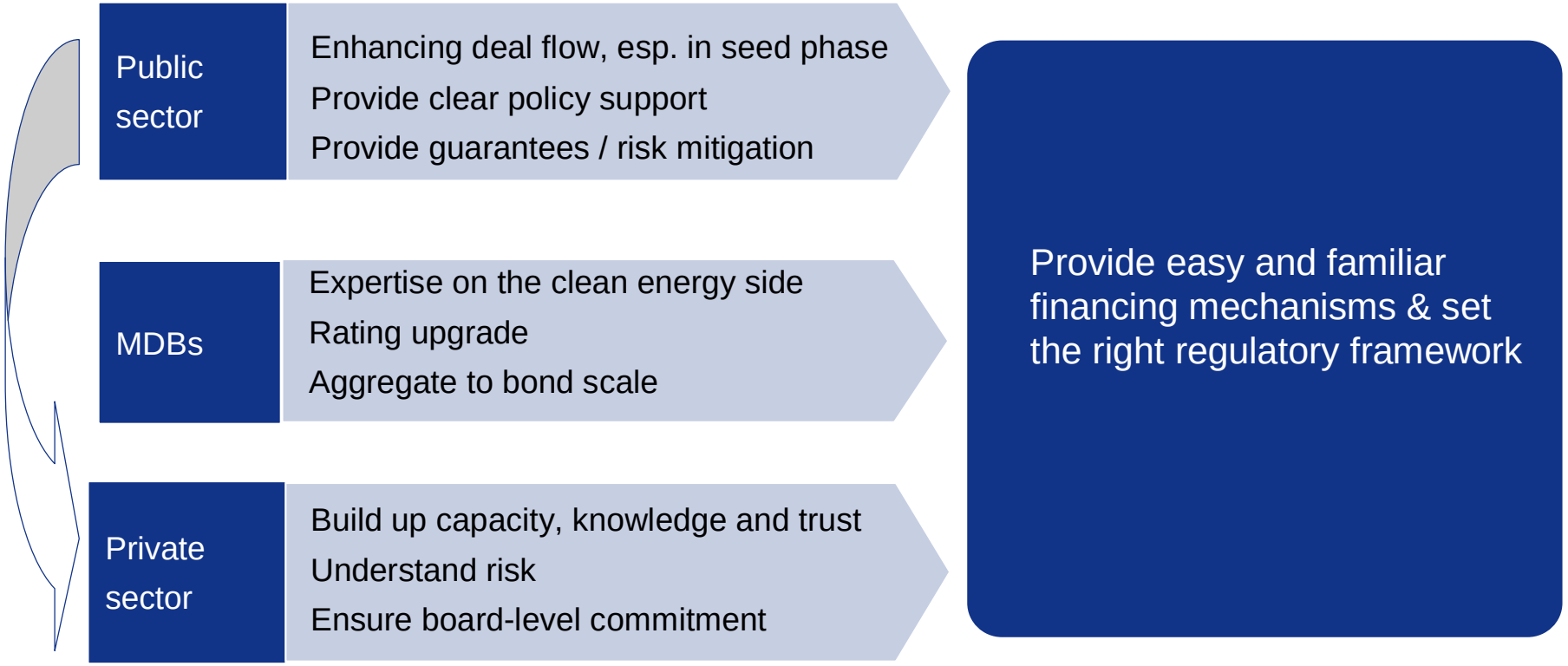
Source: WEF, 2011

Different finance requirements along project life cycle

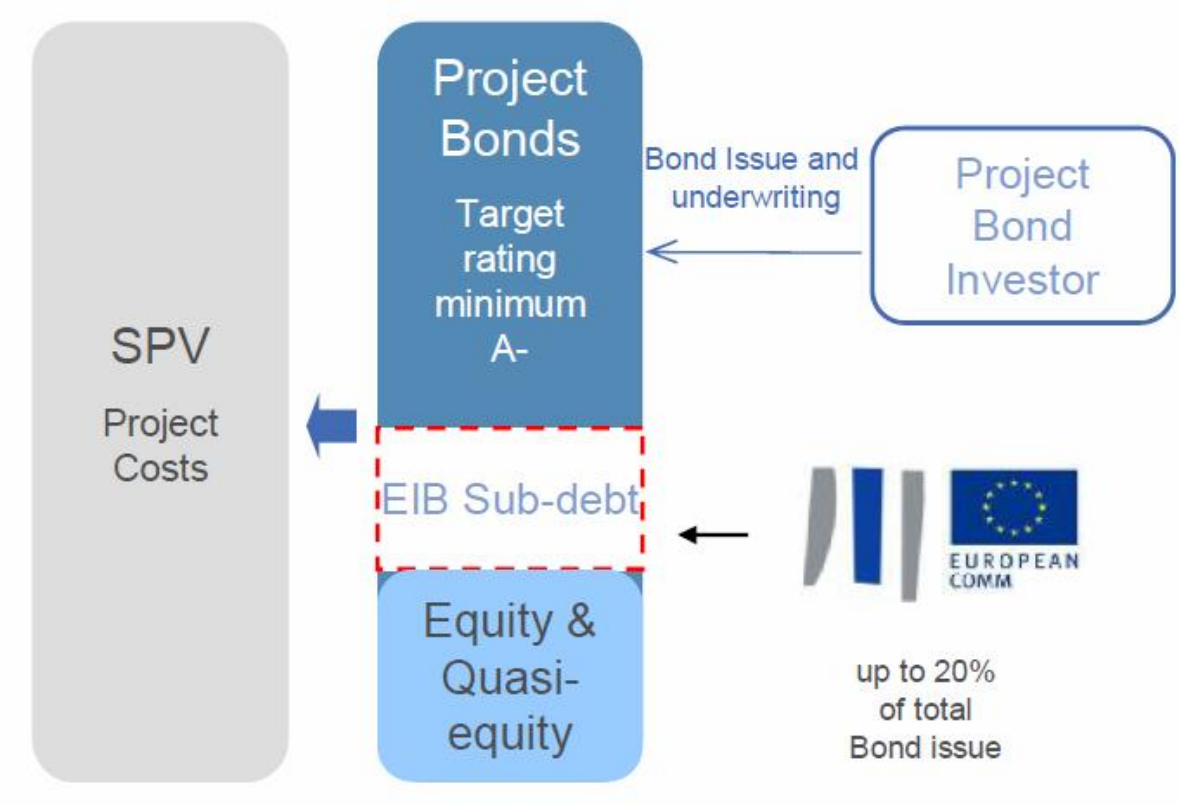


Early engagement means greater risks and possibly higher risk premium

How to bridge the gap & what role for multilateral development banks?



EU 2020 Project Bonds: a template for risk sharing?



Pros:

- Allows (potentially) for scale
- Improves (potentially) rating
- Addresses large part of institutional portfolios
- Due diligence & monitoring expertise with EIB

Cons:

- Excludes high(er) risk projects/countries
- Uptake by project developers to be seen
- Pilot limited in outreach to EU and 5 - 10 projects

Source: EIB, 10-2011.

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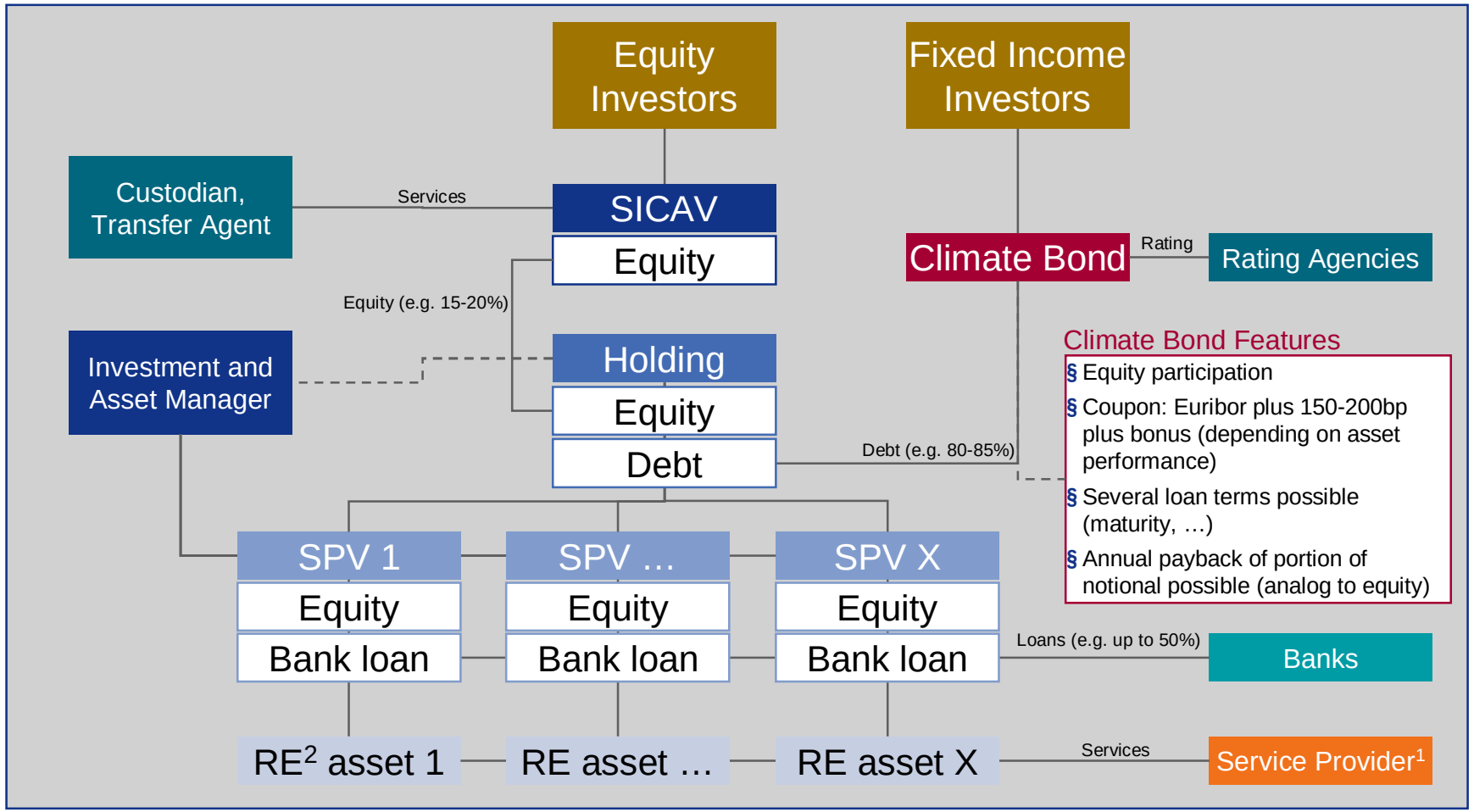
Appendices

Risk sharing structure through climate bonds



1) E.g. Technical manager, operations and maintenance, insurance, commercial, tax, legal advisors
2) Renewable Energy

Risk sharing and scaling toolbox 1

Glen House recommendations

1. A mono-line insurance mechanism providing first loss guarantee
2. A clean energy loan guarantee mechanism
3. Mezzanine debt enhancement
4. Subsidised feed-in-tariffs for renewable energy
5. A bankable power purchase agreement-like instrument for energy efficiency
6. A pooled fund for small-scale VC to promote low-carbon social enterprise in LDCs
7. Revolving fund for low-carbon social enterprise focusing on energy access
8. Advanced market commitment for bio-carbon investments.
9. A political risk insurance mechanism for climate related investments
10. A public-private fund to absorb potential first loss from high-risk investments in LDCs

Source: Recommendations from Glen House to the United Nations Green Climate Fund's Private Sector Facility (GCF-PSF) from a broad coalition of Finance Sector (Banking, Investment, and Insurance) representatives 22 May 2012

Risk sharing and scaling toolbox 2

Climate Bonds Initiative

1. Create deal flow – Bond investors need scale; renewable energy and energy efficiency projects (markets) need to be aggregated into larger offerings suitable for the appetite of the big investors;
2. Engineer investment grade offerings – High demand of *low risk* investments. Renewable energy investments are seen as a "novelty", we need to change this perception. In order to do that, a grand pact between governments and institutional investors is needed. Governments engineer a stream of large scale investment opportunities and does everything it can do to make sure they are investment grade; in return institutional investors turn on the taps;
3. Be clever about public sector risk-sharing – Financial leverage (e.g. policy risk insurance and currency risk insurance) and regulatory leverage.
4. Build green enabling institutions – Green Investment Units and Banks are needed;
5. Give tax incentives for climate bonds – very little treasury loss can be a big boost to investment;
6. Build an economic recovery narrative – the transition to a green economy revamps our economy across every sector and addresses the climate change threat;
7. Use Climate Bond Standards as a screening and preferencing tool – a tool that helps investors monitor and verify the climate effectiveness of their investments;
8. Make it easy for politicians – bond investors and business issuers have to get better at packaging politically sellable solutions, help politicians see how they can successfully sell those plans to voters

Source: http://climatebonds.net

Some stunning figures of climate finance needs…
…and well within capacity of capital markets if R/R right…

Amount (USD)	Purpose	Source
$15 trillion	Total estimated additional investment (beyond BAU, redirecting capital from conventional to low-carbon technologies) required internationally in the energy sector between now and 2035, consistent with +2°C climate stabilization target.	IEA
$200 billion	Approximate additional (low/no-carbon) energy sector investment required in developing countries in 2020, consistent with +2°C climate stabilization target.	IEA
$139-175 billion	Annual mitigation costs in developing countries by 2030, consistent with a +2°C climate stabilization target.	World Bank
$265-565 billion	Associated annual climate financing requirements by 2030 in developing countries, consistent with a +2°C climate stabilization target.	World Bank
$75-100 billion	Estimated costs over the next forty years to support climate adaptation in developing countries consistent with a +2°C climate stabilization target.	World Bank
$9 billion	Approximate amount of existing public contributions to climate change investments in developing world climate.	WEF
$110 billion	Total sum of climate-related public sector commitment underway, even if delivered to their maximum ambition.	WEF
$350 billion	Annual potential climate change financing shortfall.	WEF
$12 trillion	Estimated amount of assets under control by institutional pension funds in 2010.	SWF Review
$3.5 trillion	Estimated amount of assets under control by sovereign wealth funds in 2010.	SWF Review
$100 billion	Under the non-binding Copenhagen Accord, the annual amount of climate financing committed by developed countries by 2020. Funding to come from a variety of public and private sources. Shared vision is +2°C climate stabilization goal.	UNFCCC

Source: IETA, 2012