Financing the transition to net zero and resilient development

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2015 Milestone Agreements: a new global agenda

- Boost global demand and activity in the short-term and lay foundations for sustained long-term growth.
- Implement the Sustainable Development Goals through inclusive growth and access to basic services.
- Cut emissions to achieve net zero by 2050, and increase resilience & adaptation.

Sustainable infrastructure is at the heart of solutions to all three.
Sustainable Infrastructure: opportunities & challenges

• Cumulative infrastructure investment requirements are significant (~$90T over the next 15 years)

• Incorporating sustainability considerations
  – Costs more now but long-term gain
  – Critical to delivering both the SDGs & Paris Agreement

• Government budgets are too constrained to fill this gap

• More private sector investment required, though barriers exist, including as relates to uncertainty

*One challenge is to understand what is meant by Sustainable Infrastructure*
Sustainable = Low Carbon + Climate + Green ++

Both public and private finance will be critical

Source: Global Commission on the Economy and Climate, 2016, based on CPI and CICERO, 2015.
## Barriers and solutions: mobilizing private capital

### Barriers

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<th>Unfavourable and uncertain regulations and policies</th>
<th>Lack of transparent project pipelines</th>
<th>Lack of viable funding models and inadequate risk adjusted returns</th>
<th>High development and transaction costs</th>
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<td>Blackrock</td>
<td>MIR</td>
<td>Ashmore</td>
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<td>2.7</td>
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### Solutions (possible actions by development banks)

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<th>Deliver better project preparation and pipeline development</th>
<th>Greater use of use of guarantees or other credit enhancement tools</th>
<th>Use development capital to finance sustainability premiums</th>
<th>Increase syndication of loans that finance SI projects</th>
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Not relevant/useful (1) | Highly relevant/useful (3)
Impediments to sustainable infrastructure: a vicious cycle

**Policy and Institutional Gaps**
- Investment climate (including legal framework, governance and regulatory risk)
- Investment planning and prioritization
- Subnational and municipal institutional capacity and finance
- Project preparation and project pipelines
- PPP design and implementation
- Fiscal space, debt sustainability and management of contingent liabilities

**Sustainability Gaps**
- Fossil fuel subsidies and absence of carbon pricing
- No sustainability criteria in investment strategies
- Addressing climate risk in financial regulation
- Limited use of sustainable procurement

**Financing Gaps**
- Sovereign, sub-sovereign and project risk ratings
- Lack of risk mitigation instruments over the project cycle
- Regulatory constraints on banks and institutional investors
- Lack of well established investment vehicles and structures

**Project Development Gaps**
- Intrinsic constraints and risk characteristics of infrastructure
- Lack of effective and contestable project developer capacity

**Higher Project Costs**

**Higher Sustainability Costs**

**Higher Cost Finance**
Applying Sustainability Across the Project Cycle

Policy & Regulatory Context: Public Procurement PPPs guidelines/incentives Regulation/standards

Planning & Design Tools: Data & Information Spatial planning Project appraisals

Incentives & resources to ensure quality of service, effective maintenance for performance over life-cycle.

Institutional setting Portfolio planning Procurement & contracting Detailed design & preparation Construction Operations & maintenance Decommission

Upstream Role of Public sector: Institutional, Technical & Financial Capacity

Private Sector: Organizational, Technical & Financial Capacity
Summary of Key Messages

• Critical role of **public finance**: in developing countries 60-65% of infrastructure projects are financed by public resources; in advanced economies it is 40%

• Key to **address upstream barriers; create incentives and build capacity** to ensure policy, regulatory, including PPPs and other procurement, promote and support development of project pipelines

• As long-lived assets infrastructure being planned & designed now **must be consistent with Paris objective for net zero emissions by 2050**

• National infrastructure plans and strategies should be guided and integrated with **long-term strategies for net zero by 2050**

• Innovative use of **financial tools and blended finance** can help manage some of the risks in the absence of an effective upstream policy and regulatory context
Thank You

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