

Role of Pension Funds in Financing Green Growth

Dakar, 26 April 2011

Introduction

- Addressing the challenge of climate change and Green Growth more generally will require significant investment, in particular from private sources of financing
- Green Growth can be seen as a way to pursue economic growth, leading to a more environmentally sustainable growth model
- Pension Funds - along with other institutional investors - potentially could play an important role in financing green growth

Green Investing and Pension Funds

- Green Investment usually refers to renewable energy, clean technology, environmental technology and sustainability related markets (e.g. smart grids, water infra etc.)
- Green projects include multiples technologies at different stages of maturity. Maturity of technology financing available will ultimately result in differences in risk/return profiles for the investors
- Pension Funds are showing increased interest in green investing (e.g. P8, CERES etc)
- Pension Funds are looking for long-dates assets with inflation protection and a steady yield

Vehicles for Green Investing

- Pension funds can access green investments through traditional (equity and fixed income) or alternative asset classes. New popular vehicles for investing are:
- Green Bonds (rainforest bonds, green corporate bonds, climate bonds etc.)
- Structured Green Products (Asset Backed Securities)
- Green Infrastructure Funds

Challenges

Main themes	Main Barriers
The Investment Opportunities	<ul style="list-style-type: none">•Lack of political commitment over the long term•Regulatory instability•Fragmentation of the market among different level of governments•No clarity on investment opportunities•Infrastructure investment opportunities in the market are perceived as too risky
The Investor Capability	<ul style="list-style-type: none">•Lack of expertise in the infrastructure sector•Problem of scale of pension funds•Regulatory Barriers•Short Termism of investors
The Conditions for Investment	<ul style="list-style-type: none">•Negative perception of the infrastructure value•Lack of transparency in the Infrastructure sector•Shortage of data on infrastructure projects•Mis-alignment of interests

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