Green Bonds & Morgan Stanley

- Scaling up climate financing is an issue that has to be dealt with given that the Copenhagen Accords pledged USD 100Bn per annum by 2020 for climate finance;
- The IEA forecast that a cumulative USD 46 trillion must be spent between 2010 to 2050 in order to hit 2050 targets on climate change, with half the expenditure being new expenditure on clean infrastructure and the other half redirecting from planned Business As Usual (BAU) capital expenditure;
- The pool of capital in terms of capital markets investor base clearly exists with ongoing demand for investment grade opportunities: as of 2010 the worldwide bond market is an estimated $95 trillion (City UK data as of mid-2010) ;
- Effective and efficient leveraging of the private sector with scarce public sector resources is critical to enabling large scale financing to be deployed and to combine this with policies within the host country that can result in a transformation of the energy or transportation sector within the host country;
- The benefit of leveraging is that every one pound of public sector funding can result in additional funding from the private sector so as to create a ratio in the 1:5 type level for example whereby every. For example, one Dollar, Euro or Pound from an OECD government (or subset of OECD governments) will result in five of the equivalent currency of funding from the private sector — at a reduced cost than would otherwise have been possible;
- The issuance of bonds supported by guarantees have been used in a variety of examples, including the GAVI Alliance Bonds in order to result in reduced cost financing for health care programmes in the developing world;
- Renewable energy and clean infrastructure in general often face higher interest rates in the middle income / advanced developing world / emerging markets. In higher interest rate countries, Climate Bonds have the potential to attract concessional support from richer nations. This is vital given that the high capital expenditure aspect of clean energy investments (all capex and minimal running costs) compared to alternative fossil fuel investments (lower capex but higher ongoing running costs) means that the impact of higher interest rates has a magnifying impact;
- The Green Bond mechanism will effectively deliver reliable sources of financing at better value for money and larger scale relative to alternatives such as blending mechanisms. When combined with regulatory policies within the host country at a national or regional level it will prove far more effective in terms of mitigating climate change compared to concessional financing. Blending mechanisms and direct grant money fail to deliver large-scale low cost financing pools, without enabling access for renewable energy projects to large scale economic financing it will simply not be possible to combat climate change in terms of the rapid growth in energy demand in the developing world and emerging markets. Transformational change at a sector level is required given that decisions made today on the choice of infrastructure assets will be locked in for a 20 to 30 year time horizon.
- Partnership with the Multilateral Development Banks (MDBs) and public sector on loan guarantees that enable risk-sharing mechanisms will open up investment for the clean energy sector from the capital markets on the large-scale level required and on an economic basis.
- Morgan Stanley have a detailed proposal on Green Bonds that we are happy to discuss in more detail, please contact: imtiaz.ahmad@morganstanley.com tel: +44 207 677 5045 or +44 777 07 03 613