SESSION NOTE

Institutional Investment in Environmentally Sustainable Infrastructure

29 October 2019, 16:15-17:45

This panel will discuss investment channels to finance unlisted infrastructure. Discussions will focus on how to accelerate institutional investments in environmentally sustainable infrastructure.

An increasing number of institutional investors (including pension funds, sovereign wealth funds, insurance companies and asset managers) acknowledge the importance of and opportunities associated with investments in sustainable infrastructure. While pockets of institutional investment in sustainable infrastructure, and especially in renewable power, are expanding, institutional investments in sustainable infrastructure are still comparatively small. Currently, direct investments in infrastructure assets comprise a sliver of institutional investors' portfolios: about 1% of their asset under management (AUM).[1] Only a fraction of this 1% is invested in sustainable infrastructure.

Infrastructure investments can be accessed through multiple investment channels and instruments. Risks associated with infrastructure assets are a function of a variety of factors, for instance geography, project stage and often require public support to reach financial close. The *OECD Progress Update of Approaches to Mobilising Institutional Investment in Sustainable Infrastructure* shows that public actors have a variety of tools and techniques to activate institutional investment, including through innovative partnerships and investment vehicles. There are however outstanding challenges to channel institutional investment in sustainable infrastructure, especially in emerging economies. Public intervention is often targeted at de-risking while financial market or infrastructure regulation can have various effect from harmful to helpful for infrastructure investments.

Despite de-risking interventions by public actors, the infrastructure market, in particular new infrastructure markets like those in emerging countries, remains largely untapped by institutional investors. This stands in contrast to the USD 4 trillion[2] needed in annual investments in emerging markets to finance sustainable infrastructure to meet development needs. Further, the concentration of institutional investment on very few well-established technologies stands in contrast to the lack of missing scale of almost all relevant technology sectors: 4 out of the central 38 energy technologies for the low-carbon transition are not on track for scaling up.

Institutional investors and financial policy makers as well as regulators alike find themselves in a situation with growing environmental pressures, mounting insistence of stakeholders to engage on ESG issues and a low-interest financial environment. Finding sets of investments channels and a policy mix that is conducive to sustainable infrastructure investment will be key to develop a strong pipeline of bankable projects and catalysing investment.

[1] OECD 2018 Survey of Large Pension Funds and Public Pension Reserve Funds
[2] NCE report [need to fill in]