

Foreword

At the core of the OECD’s work on climate finance and investment is the recognition that policy makers need to focus on and strongly influence how decisions are made to invest in long-lived infrastructure if global climate change goals are to be achieved. To meet these goals, a massive shift of investment toward low-carbon, climate-resilient infrastructure must occur. For institutional investors in OECD countries which manage a very large share of national savings, a fundamental pre-condition for investing in sustainable energy infrastructure is the presence of investment grade policies – the domestic framework of policies that provides clear price signals and predictability and policy coherence that investors need. While simple enough in principle, such a framework often proves difficult to achieve in practice, as retroactive policy changes, weak carbon pricing, fossil fuel subsidies and unintended effects of non-climate-related (e.g. financial and pension fund) regulations can undermine policies that are otherwise supportive of the low-carbon transition.

A key element of a strong domestic policy framework is the establishment of specific financial policies, instruments, funds and risk mitigants that provide transitional support for new low-carbon and climate-resilient technologies. This element has been the focus of the OECD’s ongoing work on institutional investors and sustainable energy infrastructure investment. There is an important role for governments in both reducing barriers to investment and supporting the development of important investment channels, such as green bonds, YieldCos and direct investment, which can hold the key to scaling-up institutional investment in sustainable energy. This report covers the landscape of sustainable energy investment channels and decision-making to shine light on how governments can help shift large capital flows to support the low-carbon transition. This report also addresses questions such as: why are green bonds, YieldCos and direct investment potentially promising channels? Are institutional investors already making such investments? Do all institutional investors view sustainable energy investments in a similar way? What risk mitigants can governments provide to influence investment decisions?

This report is a contribution to a deepening body of literature examining the potential role of institutional investors in financing green growth and the transition to a low-carbon economy. It also adds to literature examining the role of institutional investors in financing long-term investment more broadly. Lastly, the report complements other literature focused on identifying barriers to low-carbon investment, and analysing the potential for innovative financing instruments and risk mitigants to use limited public funds to catalyse private investment in support of climate action.

This report is transmitted to G20 Finance Ministers and Central Bank Governors at their meeting on 9-10 February 2015, in Istanbul. This report will contribute to a broader G20/OECD project to develop a “Taxonomy of Long-term Investment and Infrastructure Financing”. It is designed to complement this overarching analysis by providing an

in-depth examination of sustainable energy as a discrete sector within the broader category of economic infrastructure.

The previous OECD report examining this topic (*Institutional Investors and Green Infrastructure Investments: Selected Case Studies*) was delivered to the G20 Study Group on Financing for Investment and annexed to the Communiqué of the G20 Finance Ministers and Central Bank Governors at their meeting of 10-11 October 2013. The report introduced approaches to mobilising institutional investment in “green infrastructure” including sustainable energy and elaborated policy conclusions based on four case studies. It provides a foundation of analysis for this report and can be referred to for more detailed explanations and examples of the issues discussed in this report.

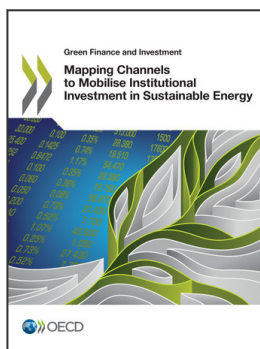
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