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Role of Pension Funds in Financing Green Growth Initiatives

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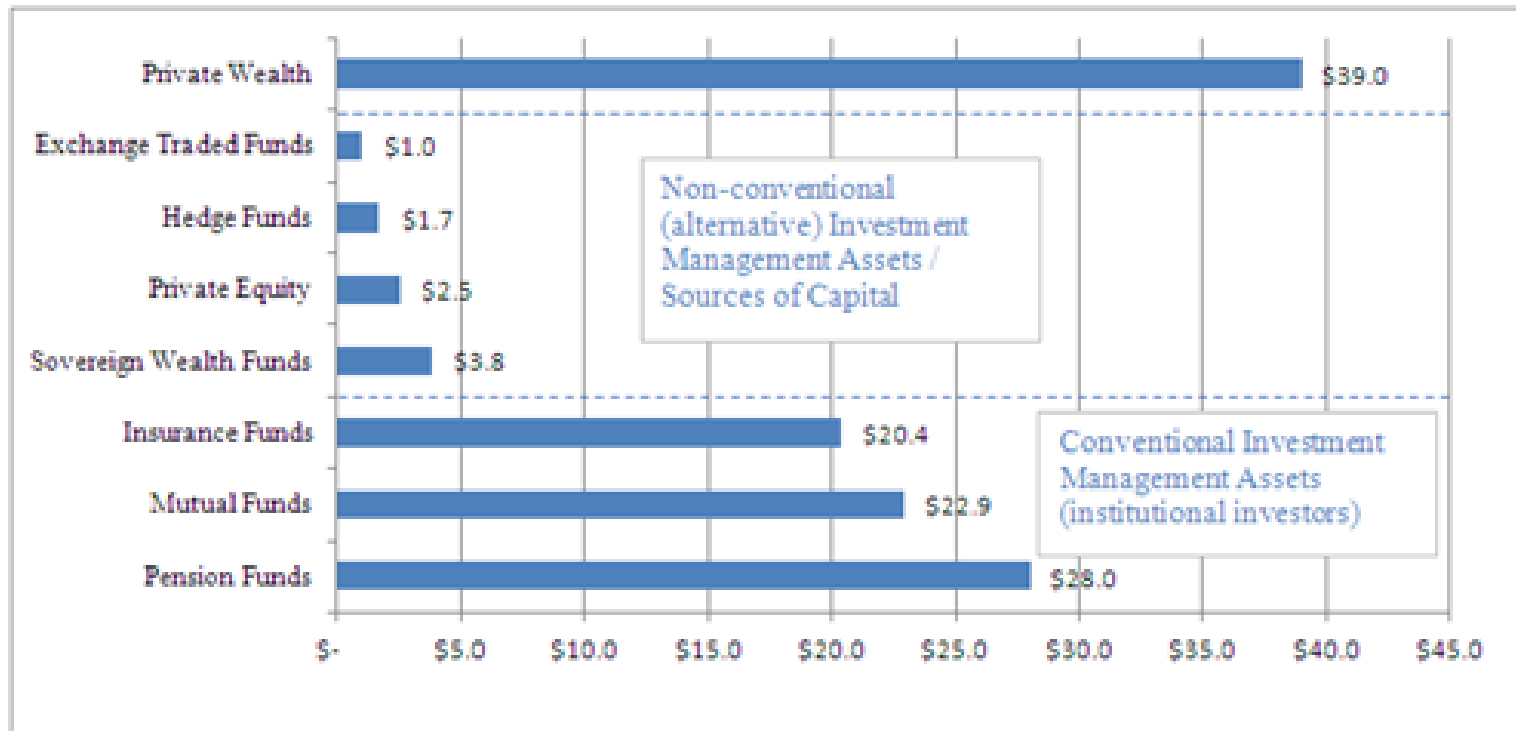
Pension Funds and Green Growth

- Transitioning to a low-carbon / climate resilient economy will take significant investment over the next 20 years
- Public capital alone will not be sufficient -particularly given government debt levels

| <i>Financing Need</i> | <i>Capital Required (USD)</i> | <i>Source</i> |
|--|---|---|
| Developed to developing country flows for climate change adaptation and mitigation | 100 billion per year by 2020 | UNFCCC (2010) Cancún decisions |
| Water infrastructure | 800 billion per year by 2015 | OECD Infrastructure to 2030 (2007) |
| IEA's Blue Map scenario of halving worldwide energy-related CO2 emissions by 2050 | 750 billion per year from 2010 to 2030 and US\$ 1.6 trillion per year from 2030 to 2050 | IEA Energy Technology Perspectives (2010) |
| Clean energy investment needs to restrict global warming < 2°C | 500 billion per year (by 2020) | World Economic Forum and Bloomberg New Energy Finance (2010) |
| Investment requirement for energy transformation (BAU + incremental needs) | \$65 trillion by 2050 or \$1.6 trillion per year | UN World Economic and Social Survey 2011 and Global Energy Assessment (forthcoming) |
| Implementing 'sustainable growth' | US\$ 0.5-1.5 trillion per annum in 2020 rising to US\$ 3-10 trillion per annum in 2050 | WBCSD (2010) |

Pension Funds and Green Growth

- Pension funds – with \$28tn assets – have a potentially important role to play





Pension Funds and Green Growth

- Pension funds are looking for assets with long-term, inflation projected, low correlation income streams
- Green projects – such as renewable energy – should be able to provide these
- So why do pension funds' allocations to these assets remain so low (<1%)?



Problems with Environmental Policy Backdrop

- Green investments remain uncompetitive due to:
 - New technology requiring R+D
 - Mispricing of externalities
 - Subsidies for fossil fuels

- Government policies need to be supportive, consistent and long-term
 - R&D support
 - Carbon pricing
 - Stable subsidies – loud/ long/ legal

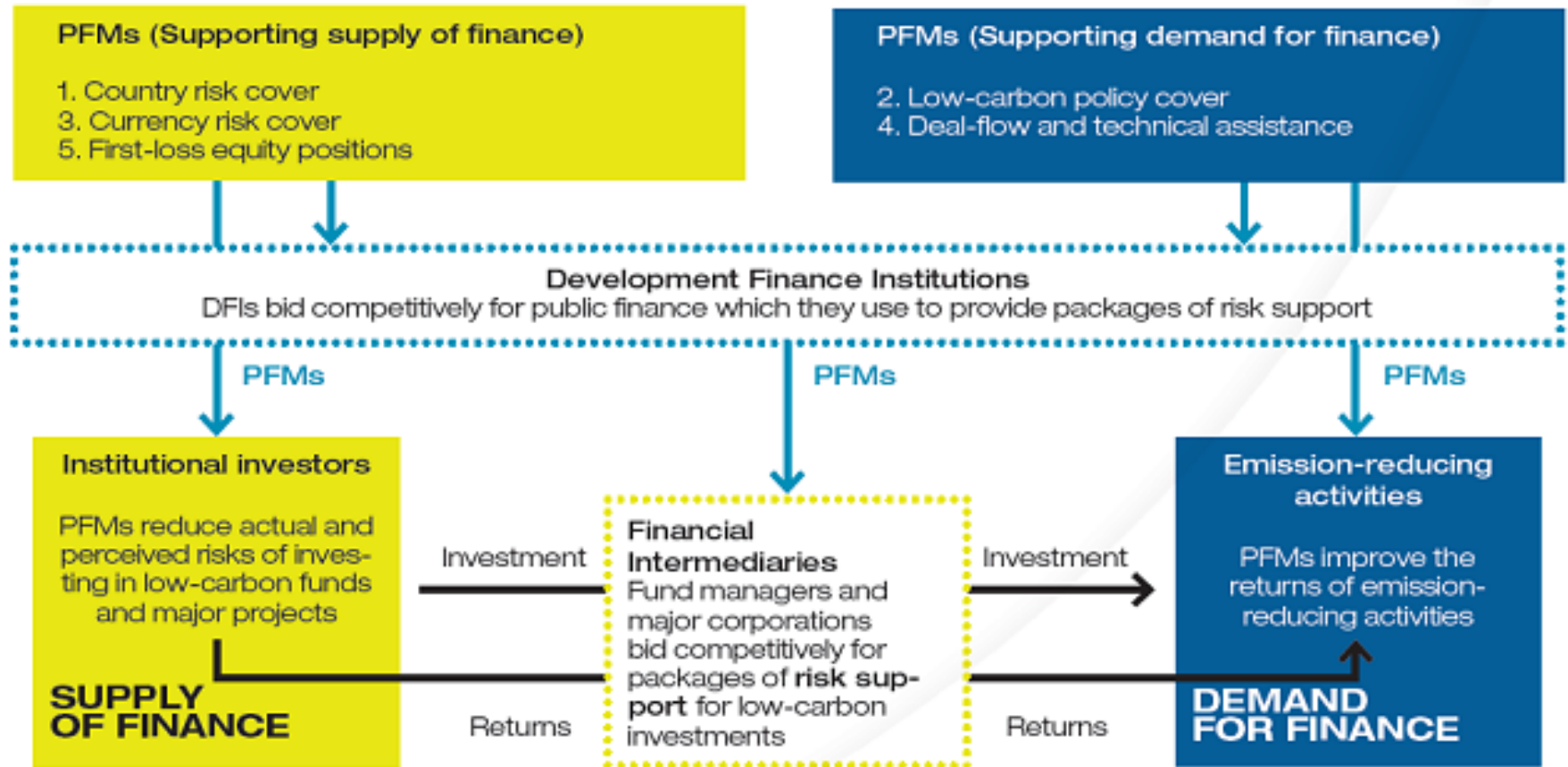


Problems with Financial Vehicles

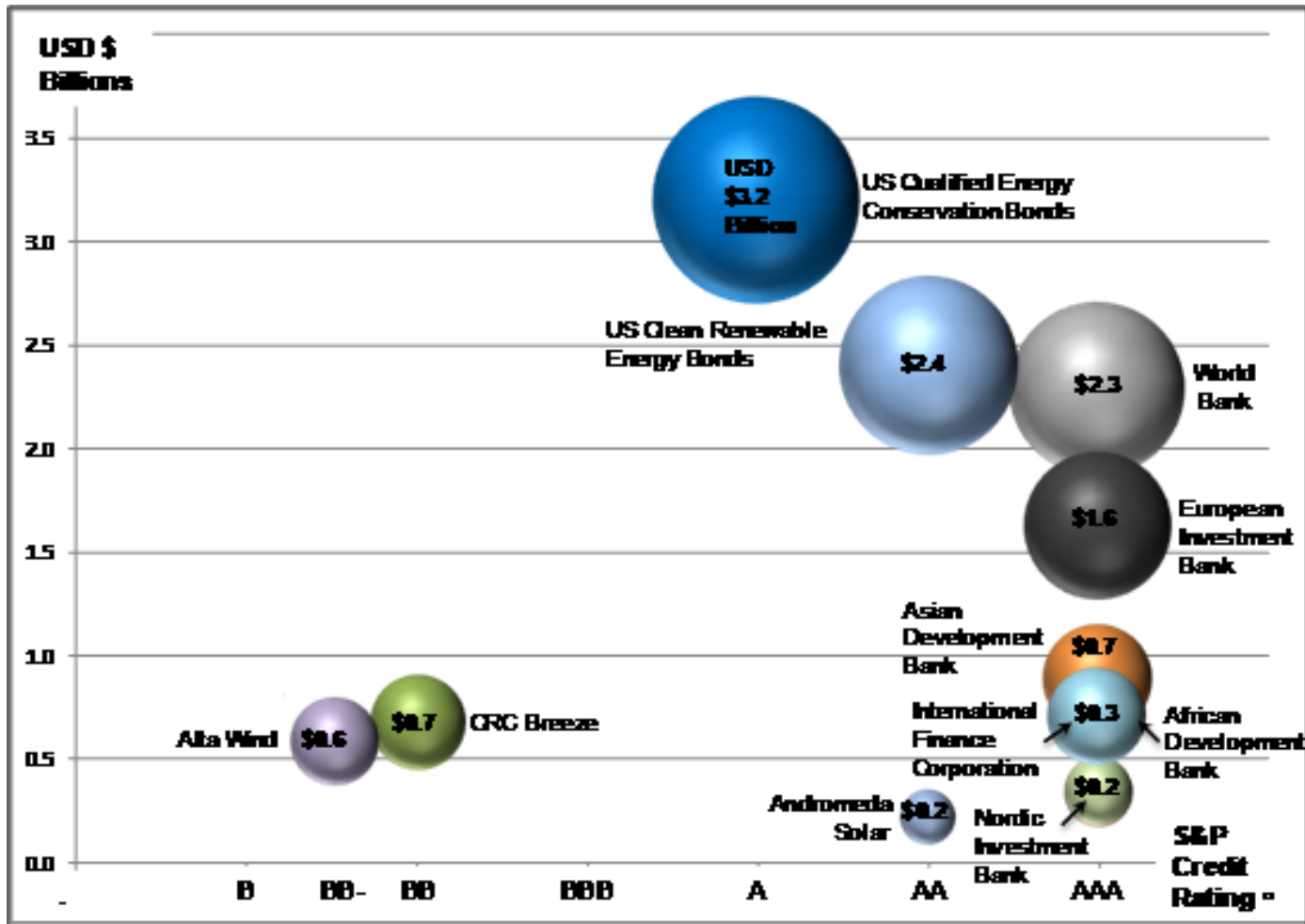
- Lack of attractive investments
 - Too short-term
 - Too high risk (new risks not understood)
 - Lack liquidity
- Government can help create attractive investment vehicles
 - Governments take subordinated equity positions
 - Provide risk coverage (political, currency, regulatory)
 - Standardisation and rating of green investments



Public Financing Mechanisms



Supply Side Initiatives – Green Bonds



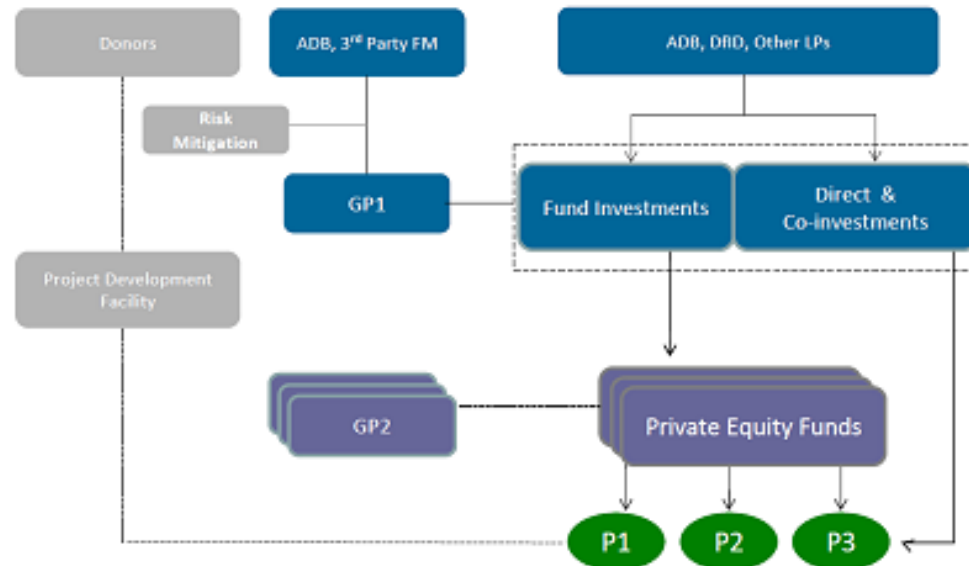
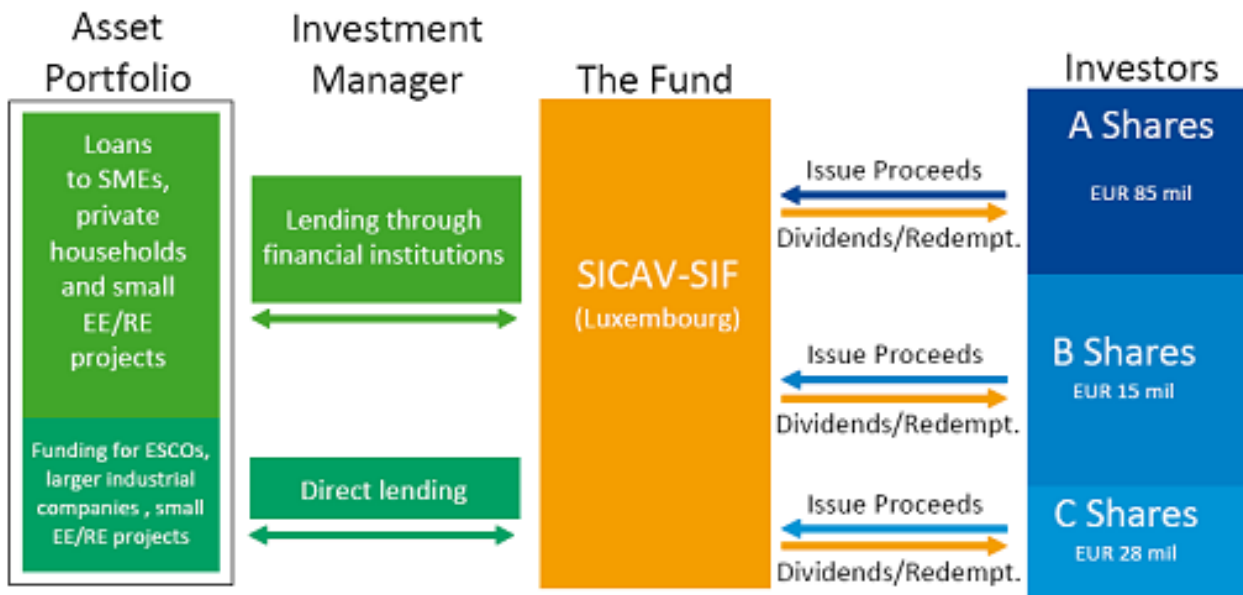


Supply Side Initiatives

- Structured Green Products
 - Soc Gen bonds/ Breeze Bonds Initiatives

- Green Infrastructure Funds
 - EIB
 - CP3

- Green Banks
 - UK
 - Connecticut





Demand Side Initiatives

| <i>Group</i> | <i>Type of Investors</i> | <i>Size of Assets</i> | <i>Objectives</i> |
|---|---|-----------------------|--|
| IIGCC | 70+ European institutional investors, including major pension funds | €6tn | Catalyse greater investment in low carbon economy |
| Investor Network on Climate Risk (managed by Ceres) | 90+ USA institutions | USD\$10bn | Identify opportunities and risks in climate change, tackle the policy and governance issues that impede investor progress towards more sustainable capital markets |
| Investor Group on Climate Change | Australian and New Zealand investors | AUS\$600bn | Raise awareness, encourage best practice in terms of analysis and provide information relating to climate change |
| P8 | World's leading pension funds | USD\$3tn | Create viable investment vehicles to combat climate change and promote sustainable development |
| Long-term Investors Group | Mainly public sector financing institutions | USD\$3tn | Identify long-term investment fund and vehicles |



Policy Recommendations

- *Provide supportive environmental policy backdrop*
- *Create right investment vehicles + market liquidity*
- *Support investment in green infrastructure;*
- *Remove investment barriers*
- *Provide education and guidance to investors*
- *Improve pension fund governance*