



Green finance – Emergence of new green products to fund decarbonization



Authored by:

Mike Hayes

Head of Global Renewables, KPMG International

Wafa Jafri

Director, KPMG in the U.K.

The rise and rise of green finance

Climate change has become the defining political and economic issue and is likely to remain so for many years. Globally, governments, investors, corporations, and private citizens are starting to take actions to respond to the climate crisis with a particular focus on decarbonization strategies. Moving to a decarbonized economy is going to require an unprecedented level of new capital investment, particularly in the form of green finance, to support activities to reduce GHG emissions and to help corporations adapt to the impact of climate change.

In this blog, we examine the emerging areas of green finance that will be required to fund this level of investment, and in particular, we look at some of the newer so-called green products that are emerging beyond instruments such as green bonds, which are now well understood.

While the estimates of the funding requirements differ, they are all in the trillions. The G20 estimates that global investment of US\$90 trillion would be required over the next 15 years to achieve global sustainable development and climate objectives. According to the International Energy Agency, cumulative investment of US\$53 trillion is required by 2035 in the energy sector alone. Also, it is now accepted that to enable a

transition to a zero-carbon future, a mix of public and private sector capital will be required, and that public sector money alone cannot cover this cost.

Therefore, there is an urgent need to enhance the ability of the financial system to mobilize private capital for green and sustainable investment. In turn, this requires the development of new financing tools in order to match potential investors with the green financing requirements and to help mobilize capital in the scale required. Below, we highlight some of the most important existing and emerging products:

Existing green products

— Green bonds

Green bonds have become the investment vehicle of choice for the private and public sectors to finance projects with environmental benefits. In particular low carbon transport, clean power and energy efficient buildings have availed of this type of financing. While there is much debate around issues such as greenwashing whether green bonds are better than conventional bonds. This has now become a highly recognized asset class attracting ever-increasing amounts of institutional capital and is likely to be a mainstay of the green finance revolution.

— Green equity funds

A green equity fund is a structured investment vehicle that selects investments based on a commitment to a green investment strategy. This structure enables different investors to pool their capital with qualified investment managers to pursue an agreed investment strategy. This type of investment structure has been used extensively to support investment in renewable energy over the past 15 years and is now a well-accepted investment tool.

Emerging green products

As with any sophisticated capital market, it is critical that a more diverse range of financial products will be required. Here, we outline briefly some emerging green financial products:

— Green securitization

The bundling of green loans into securities can unlock additional capital to finance the transition to a decarbonized and climate-resilient economy. Securitization enables the aggregation of multiple small-scale loans and helps to attract a different investor base. Importantly, securitizing existing loans also gives banks and other primary lenders an opportunity to refinance existing loan portfolios and recycle capital to create fresh portfolios of green loans. Different structures such as collateralized loan obligation and asset-backed securities transactions can be utilized.

— Green leasing/renting

Leasing is one of oldest and most popular financing structures available to finance the acquisition of planted equipment; however, it is still only at a nascent stage when considering the potential for funding green assets. Emerging areas where green leasing has been used include:

- Green property leases
- Green car leasing
- Energy efficiency
- Green mortgages.

— Other solutions:

– Public/private partnerships

These have been used extensively to support infrastructure projects and represent a viable financing tool for climate finance, particularly given the necessity of involving both the public and private sectors on climate mitigation.

– Climate insurance

Insurance represents a very important but much underutilized approach in helping to structure climate-related financial solutions and which can be included in a wider financing approach to help make it bankable. This includes sovereign risk insurance and technology insurance products.

– Transition and sustainability bonds

These are used by companies in carbon-intensive sectors such as oil and gas or heavy industry, where green bonds may not be accessible due to the specific criteria.

– Islamic finance

Climate mitigation strategies are consistent with the principles of Islamic (or Sharia) finance. Islamic finance offers a broad range of instruments that can be used for climate mitigation and importantly draws on a completely different universe of investors.

– Green loans

Green loans are loans aimed at advancing environmental sustainability and are similar in nature to green bonds. Separate green loan principles have now been developed.

Therefore, we are likely to see some or all of these products being increasingly utilized to attract investment capital for the fight against climate change. We expect that over time more sophisticated variations of these products will ultimately emerge.

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved. NDP054804-2G