THE NEW GREEN

How innovative climate investing drives policy in Asia

Amundi
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Climate investment—financing that supports mitigation or adaption projects that tackle climate change—used to be a subject discussed only in public policy forums. No longer. Institutional and private investors are now important sources of finance for companies that are committed to reducing greenhouse gas emissions and mitigating the effects of climate change, says Jean-Jacques Barbéris, Executive Committee Member and Head of Institutional and Corporate Client Coverage at Amundi. This has given rise to climate investing as a defined sphere of activity for banks and asset managers. It has also significantly increased the prominence of environmental, social and governance (ESG) investment criteria.

Asia-Pacific is a large and growing destination for climate investment. According to Climate Policy Initiative, a not-for-profit think-tank, the region accounted for 44% of total (public and private) climate finance flows in 2015 and 2016, far outpacing other parts of the world.[1]

There is good reason for these capital flows. The region is home to those countries most vulnerable to climate shocks[2]. For example, over 40 million people in Bangladesh, India and Nepal were affected by intense monsoon rains in late 2017. Meanwhile, urbanisation, industrial growth and deforestation all contribute to poor air quality across Asia. According to the Asian Development Bank, the effects of air pollution have cost the sub-regions of South Asia, Southeast Asia and the Pacific an estimated 7.5% of regional GDP[3].

The infrastructure Asia-Pacific needs to support growth must be both green (protective of the environment) and resilient to climate change. In this context, Asia's climate financing needs differ from Europe's. The latter requires financing partly to upgrade existing infrastructure to meet current environmental standards, whereas in Asia financing is often needed to build compliant infrastructure from the ground up. This means opportunities—Asia requires massive investment that meets ESG criteria—as well as risk.

GETTING FAMILIAR WITH GREEN ASSETS

There is clearly a degree of uncertainty involved when investing in emerging-market projects in Asia that are pursuing decarbonisation, but investment solutions are becoming available that help minimise risk for investors. For those new to climate investing in the region, Mr Barbéris advises first determining what the embedded climate risk is in their existing portfolio. If investors find they are not being remunerated for that risk, he says that's when they need to take action. For example, climate-aligned bonds are a group of instruments that investors can utilise to better balance risk and return.

In Asia and other emerging markets, Mr Barbéris believes that climate-aligned bonds are highly effective for channelling global and domestic capital to companies involved in decarbonisation. These include labelled "green bonds", which are exclusively earmarked for specific green projects—for example, in renewable energy generation, waste

[1] CPI, *Global Climate Finance: An Updated View 2018*, November 2018
[2] See, for example, Germanwatch, *Global Climate Risk Index 2019*, December 2018
[3] Asian Development Bank, *Transformation towards Sustainable and Resilient Societies in Asia and the Pacific*, March 2018

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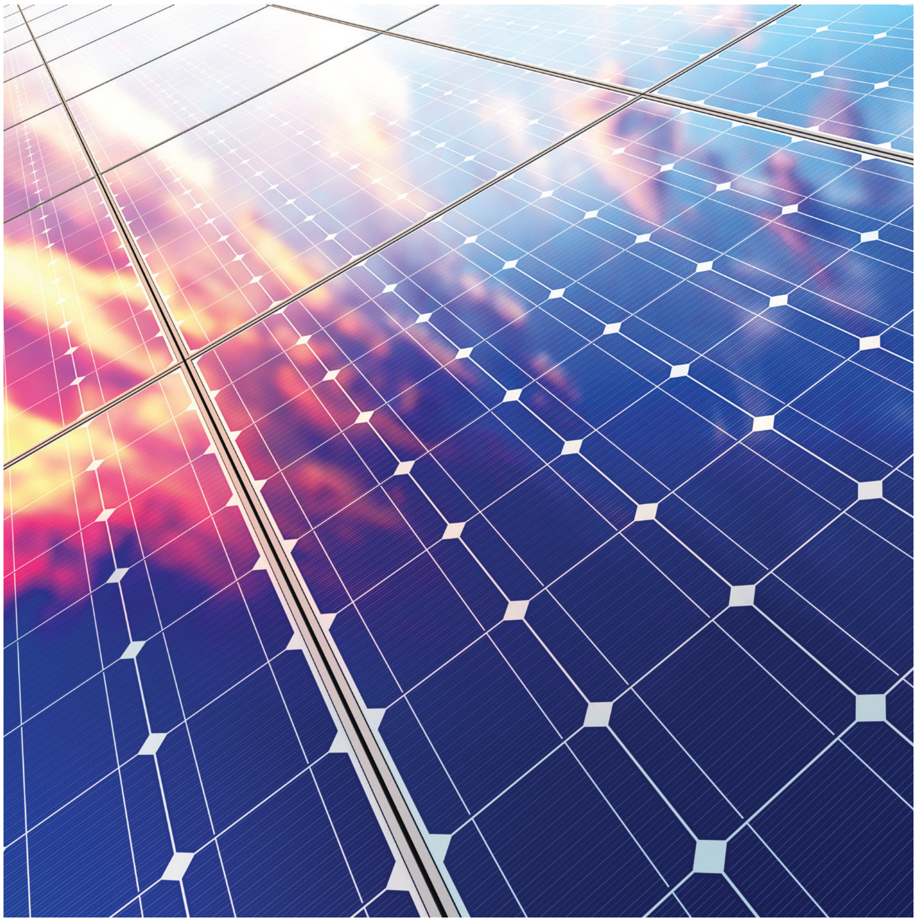

propositions with risk-return profiles that meet their needs. Amundi is helping to bridge this gap through innovative financial solutions, such as public-private partnerships.

"Financial innovation is needed to better channel the monies of institutional investors into green investments in Asia. Public-private partnerships are particularly useful for de-risking investments in the region."
Jean-Jacques Barbéris

An example of this is Amundi Planet Emerging Green One, launched by the firm in 2018 in partnership with the International Finance Corporation (IFC). With US$2 billion to invest over a seven-year period, it is the world's largest green bond fund. The rationale behind the fund is clear, says Mr Barbéris. "As a European institutional investor, I can invest in a fund that buys green bonds issued by an emerging-market bank. I can see the risk associated with the bank as well as the potential yield. The latter is interesting, and the project risk is borne by the bank. Most importantly, I'm financing projects that are reducing carbon emissions."

The fund has made another contribution to climate financing: the two partners have produced a first-of-its-kind impact report—the *Emerging Market Green Bonds Report 2018*—with the aim of improving the availability and transparency of information in this field of finance.

management or water management. As well as bonds that have similar purposes, but do not carry the "green label".

"Climate investors need to learn by doing, and the best way to do that in Asia is with safe, liquid assets such as green bonds."
Jean-Jacques Barbéris

Asia is embracing green bonds, driven by governmental initiatives to "green" their economies. China is the largest green bond market amongst emerging countries, accounting for just under 80% of emerging market green bond issuances between 2012 and 2018 by value (US$108.6 billion). The next largest is India, with 6% of the total (US$7.7 billion).[4] Meanwhile, Hong Kong announced a US$12.7 billion green bond programme in June 2018; making it one the world's largest such schemes. Less than a year later, the city raised US$1 billion in May 2019 from the sale of its first-ever green bond. The growth of these instruments across Asia has benefitted greatly from policymakers' efforts to align their climate-aligned bond markets to international standards.

NEW IDEAS FOR CLIMATE INVESTMENT MECHANISMS

Despite progress, there is still a long way to go before Asian countries make serious inroads towards a low-carbon economy. There is a particularly acute demand for green infrastructure, which in-turn creates opportunity for investors. However, investors require instruments and

MEETING EVER-INCREASING DEMAND OR GREEN FINANCE

According to the IFC, Asia's cities have the potential to attract more than US$20 trillion in climate investment between now and 2030.[5] This will be needed to fund the decarbonisation projects the region's cities desperately need as the pressures from population growth continue to rise. Innovative instruments such as climate-aligned bonds will be instrumental in financing such projects, while delivering returns to investors. "We are extremely positive about the development of this asset class in Asia," says Mr Barbéris.

[4] Amundi and IFC, *Emerging Market Green Bonds Report 2018*, April 2019
[5] IFC, *Climate Investment Opportunities in Cities: An IFC Analysis*, 2018

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