The Bangkok-Johannesburg Blueprint

“All the government needs to do is to define the rules…”

Projects are never shovel ready…”

The challenge — building cities of the future now

By 2050 some 70% of the world’s 9.7 billion population will live in cities and the carbon intensity of those future cities will be determined by infrastructure investment decisions made over the next 15 years.

The socially vibrant, economically dynamic and ever-changing cities of the industrializing, emerging and frontier economies, where we are witnessing the most rapid increases in urban and peri-urban populations, are both redefining how we tackle a broad range of urban challenges and, also, are experiencing now the realities of climate change.

Productive investment

Globally, governments, at the national, provincial and municipal levels, do not have adequate fiscal resources to address the scale of the evolving low carbon infrastructure challenge. Understanding this financial gap, it is clear that the savings of billions of ordinary citizens, captured in pension funds, sovereign wealth funds, endowments and insurance reserves, will need to be mobilized into productive, climate-smart infrastructure investments that meet the needs of the end beneficiaries, communities, investors, as well as national and sub-national authorities.

Part of the significant assets of the rich and super rich, approaching U$50 trillion controlled by some 10 million people worldwide, will also need to be invested in the low carbon infrastructure transition at a time when we will see the biggest inter-generational transfer of private wealth in history up to 2030.

Beyond those assets managed by large institutions or controlled by the rich, new platforms are emerging that, increasingly, will play a role to mobilize the funds controlled by individuals into infrastructure. Building on the evolving crowd-funding dynamic, it can be envisaged that, in time, communities would have a greater say and stake on how their savings flow into the type of infrastructure that serves their needs.

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Leadership for a new political economy

Leaders in business, industry, investment and finance will have a critical role to play as stewards of a low carbon economic transition working with leaders in government and civil society to frame and deliver a new model of political economy that limits global warming. The term “costs” misrepresents the climate change equation as addressing climate is in fact the largest investment opportunity that has ever existed.

This brief report reflects the four days of pre-UNFCCC CoP21 dialogue convened by the Cities Climate Finance Leadership Alliance (see Box 1) in two dynamic cities in Africa and Asia-Pacific, namely: Johannesburg, Republic of South Africa (23-24 November, 2015); and Bangkok, Thailand (26-27 November, 2015).

The recommendations herein are presented as the “Bangkok-Johannesburg-Blueprint” which is focused how to mobilize greater flows of capital into climate-smart infrastructure. The document does not represent the views of CCFLA members per se but rather the views of the 65 participants drawn from a broad stakeholder mix of policy-makers, investors, financiers, academics and climate focused corporations supplying products and services into the infrastructure markets. A number of CCFLA members were present in Johannesburg and Bangkok. The recommendations framed in the “Bangkok-Johannesburg-Blueprint” are divided into the following sections:

SECTION A: Framing the Context

SECTION B: The Bangkok-Johannesburg Blueprint

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SECTION A: Framing the Context

Potential

1. If we get cities right we tackle more than half of the climate problem;

2. Systemically important financial institutions, as well as central banks and global banking regulators, are waking to the downside risk and upside investment and financing opportunities presented by the evolving low carbon, industrial revolution and the infrastructure required to underpin it;

3. The emergence of a new financial architecture post the 2008 Global Financial Crash with a richer ecosystem of financial institutions, such as new development banks, smaller/local banks and re-emerging cooperative banks. New institutions often see the processes and technologies to address climate risk as one of the greatest investment opportunities ever as momentum grows for the transition to a low carbon, sustainable, global economy;

4. Smart tax breaks, matching funds and cheap loans will leverage the US$ 100 billion of public climate finance that the world’s advanced industrial nations committed to mobilize each year by 2020. This will free up US$ trillions of private investment into the low carbon infrastructure space;

5. The embryonic US$70 billion clean-green bond market has an almost “infinite” capacity to expand and become a significant component of the US$ 90 trillion annual fixed income market;

6. Understand how to harness “the power of financial consolidation” as new financing platforms evolve. Local capital accrual, driven by city-focused, stock markets, local banks and grass roots financial institutions, will have a role in 21st Century climate-smart city success stories. Equally, new forms of capital raising through crowd sourcing and emerging collective financial platforms that mobilize more people in fundraising will enable communities to have a direct say in the cities they want;

7. Creative use of capital markets can catalyse new low carbon portfolios, resulting in a scaled up flow of capital for productive investment in the new economy;

8. A new breed of financial institutions will be focused on local and regional needs that are emerging from a new understanding of climate risks as opportunities.

Problems

1. The inability of fiscally constrained governments and asset owners, in a post financial crash world, to deploy sufficient capital for infrastructure and for associated long-term, low carbon investment opportunities that the coming energy, technology and social transition will create;

2. Current capital deployment into infrastructure often stems from “bounded rationality” and results in “paralysed institutional money”;

3. The complexity and risks embedded in infrastructure value chain that starts with political commitment and ends with investment;

4. The lack of understanding with respect to the long-term importance of building infrastructure businesses to support economic development;
5. The lack of understanding of how the emergence of climate-smart infrastructure will release new ways of building value that encapsulates long-term thinking through the incorporation of environmental, social and governance factors;

6. An acute need to better understand both the politics and political timetables to deliver successful projects;

7. The “siloh effect” stymies vision, narrows strategy, undermines innovation and dilutes collective action to deliver a climate-proofed future;

8. Capital will continue to flow to the speculative, high return, early exit infrastructure projects on the basis of the international banking system’s originate and distribute model;

9. Much of modern, international finance has become disconnected from the long-term needs of society. This is compounded by poorly formed regulations, such as Basel III and Solvency II, that disincline financial and investment institutions to invest for the long-term;

10. There is embedded resistance, to the concept of “moving the city” — making planning decisions and shifting communities in line with geographical and climate realities — despite the economic realities of climate adaptation;

11. There are a lack of “different” financial instruments structured for less attractive climate-smart investment opportunities. Investment and finance for such projects will require new creative structures and to be ring fenced and delivered to support important social needs;

12. Divisions of responsibilities between different levels of subnational and national governments can be a barrier to the emergence of bankable investment opportunities.

SECTION B: The Bangkok-Johannesburg Blueprint

Policy & Planning

1. Promote the need for visionary leadership within all sections of society — political, social, economic — that promotes a new model of political economy that will limit temperature rise. “Constructive-Disruptive” leaders who ask hard questions early will empower all sectors of society to adapt;

2. Address governance issues to foster broader political commitment to the goal of climate-smart infrastructure;

3. Place scientific evidence at the heart of urban policy and planning processes and involve the community in infrastructure decision making. Recognise the critical need for cohesive and collective pre-feasibility assessments by multi-stakeholder coalitions when planning urban infrastructure delivery;

4. Educate the policy community on the economy and society-wide risk associated with stranded assets;
5. Develop and agree a definition of climate-smart infrastructure and embed it in our collective vision and planning for efficient cities in a manner that understands the need for local diversity, for example, see the SuRe standard developed by Global Infrastructure Basel (GIB);

6. Develop a clear classification and understanding of infrastructure that facilitates economic and social activity as well as that infrastructure which protects such activity;

7. Link community needs with policy/investment needs in order to stabilize the political climate and reduce investment risk;

8. Emphasise the need for broad political commitment to underpin the identification development and financing of projects;

9. Understand the three-tiered approach to successful policy: clear identification of need; what can the private sector do; and how can governments at all levels create the enabling environment to deliver;

10. Governments should define the desired outcomes but not the solutions, Ensure long term predictability of the policy and regulatory environment to sustain viable long term investments;

11. Promote inclusive and broader engagement embedded in policy process as a recognition of problems associated with top down initiatives.

Portfolios

1. Encourage investor focus to shift from individual projects to infrastructure portfolios and infrastructure businesses in order to diversify risk profiles;

2. Explore how to adapt and adjust the current incentivization model for managers that encourages them to focus on a broader basket of infrastructure projects to speed risk diversification;

3. Emphasise the evolving requirements for 21st century fiduciaries to fully integrate environmental, social and governance considerations into their infrastructure investments;

4. Emphasise the evolving requirements for 21st fiduciaries in terms of higher standards expected of fiduciaries and recognize the expected broadening of who constitutes a fiduciary;

5. Encourage a creative use of local capital markets for both debt and equity products (passive and active), and infrastructure businesses to channel greater flows of institutional and retails funds into infrastructure;

6. Boost the number of listed infrastructure funds to heighten capital flows from new sources into the space acknowledging the need for balance between listed and non-listed, and recognizing the emergence of new climate and low carbon investment platforms;

7. Fast track the development of projects from defining needs, to identification of projects, to arranging finance for construction;

8. Educate and sensitize the asset owner community to the potential for long-term returns associated with well-founded infrastructure projects that can be modelled.
Projects

1. Highlight, capture and replicate those ground-breaking examples where well targeted public finance de-risks climate-smart infrastructure projects;

2. Build knowledge and understanding of what a “bankable project” is, so as to encourage replication;

3. Standardize amongst key infrastructure stakeholders a compelling, robust and crystal clear template for framing and pitching climate-smart infrastructure projects at a bankable standard. A standardized approach that promotes quality projects well will lessen transaction costs;

4. Emphasise the benefits of pre-feasibility assessments of infrastructure projects based on an approach inclusive of stakeholders as key to managing risk;

5. Develop enhanced, standardized and accelerated processes for project formulation that facilitates the origination, bankability and delivery of climate-smart infrastructure projects;

6. Apply a means of measuring and reporting of non-financial value utilizing existing knowledge from such bodies as, inter alia, the Carbon Disclosure Project (CDP), the International Integrated Reporting Council (IIRC) and the Global Reporting Initiative (GRI);

7. Recognise that over-emphasising the climate-infrastructure link will be counter-productive as the challenge must be set in the context of, inter alia, health, political, social and technological issues;

8. Develop an infrastructure product pipeline showing the next 2-3 years of committed projects with “under review” and “potential to reviews” projects listed for up to five to seven years;

9. Recognise the role of infrastructure businesses, which can be listed on local stock exchanges, as vehicle for investment in projects.